

STATE OF ARIZONA
Low-Income Housing Tax Credit Program

2005
QUALIFIED ALLOCATION
PLAN

Table of Contents

1.	INTRODUCTION	
1.1.	Background	1
1.2.	General and Specific Goals	2
2.	APPLICATIONS FOR TAX CREDITS	
2.1.	Amount of State's Annual Credit Authority Available Statewide	3
2.2.	Maximum Tax Credit Reservation	3
2.3.	Timetable and Application Submission Location	4
2.4.	Application Format	4
2.5.	Application Review Process For Projects that are not Bond Financed	4
2.6.	Eligibility Requirements	5
2.7.	2005 Set-Asides	15
2.8.	2005 Project Scoring	17
2.9.	Rents	21
2.10.	Tiebreaker	21
2.11.	Project Ranking	22
2.12.	Carryover Allocation	22
2.13.	10% Test and Other Required Documentation	23
2.14.	Forward Commitments	24
2.15.	Questions	24
2.16.	Non-Allocated Projects	24
3.	TAX CREDITS FOR DEVELOPMENTS FINANCED WITH STATE VOLUME CAP BOND AUTHORITY	
3.1.	Determination of Tax Credits for Tax-Exempt Bond Projects	25

4. GENERAL REGULATIONS

4.1.	False Filing	27
4.2.	Satisfactory Progress	27
4.3.	Change of Ownership	28
4.4.	Special Needs Populations	28
4.5.	Senior Projects	28
4.6.	Revocation of a Certificate of Qualification for 4% Tax Credits, Tentative Award Letter, Certificate of Reservation or Carryover Allocation for 9% Tax Credits	28
4.7.	Disqualification	29
4.8.	Extended Use Period	29
4.9.	Acquisition of Land and Buildings	29
4.10.	Material Changes	29
4.11.	Distribution of Units	31
4.12.	Amendments to the QAP	31
4.13.	Disclaimers	31
4.14.	Return of Tax Credits	31

5. FINAL TAX CREDIT ALLOCATION

5.1.	Final Tax Credit Allocation and First Year Certification by ADOH	31
5.2.	First Year Certification and Issuance of Final Allocation (IRS Form 8609)	32
5.3.	Final Allocation Underwriting	33
5.4.	Extended Use Agreement	33

6. FEES

6.1.	Application Fee	34
6.2.	Director's Discretion Application Fee	34
6.3.	Building Permit Extension Fee	34
6.4.	Determination or Reservation Fee and Final Allocation Fee	34
6.5.	Applicant's Obligation for Fee Payment	35
6.6.	Tenant Ownership Fees	35
6.7.	Carryover Allocation Late Fees	35
6.8.	10% Test Late Fees	35
6.9.	Administration Fees	36
6.10.	Compliance Monitoring Fees	36
6.11.	Fees Are Not Refundable	36

7. UNDERWRITING

7.1.	Underwriting Standards	36
7.2.	Builder's Profit, Overhead and General Requirements Limits	38
7.3.	Construction Financing Costs	39
7.4.	Permanent Financing Cost	39
7.5.	Rent-up and Operating Reserves	39
7.6.	Cost Attributed to Market Rate Units	39
7.7.	Other Features	40
7.8.	Development Cost Standards	40

7.9.	Calculation of Tax Credits	41
7.10.	Operating Costs	41
7.11.	Operating Income	41
7.12.	Permanent Financing Provisions	42
7.13.	Funding Gaps	42
7.14.	State Housing Fund	42
7.15.	Eligible Basis Analysis	43
7.16.	Equity Gap Analysis	43
7.17.	Layering	44
8.	PROJECT COMPLIANCE MONITORING	
8.1.	Project Compliance Monitoring	44
8.2.	Compliance Monitoring Procedure	45
9.	DEFINITIONS	48

EXHIBITS

Exhibit B - Sample Letter of Community Assessment
Exhibit C - Year 2005 DDA and QCT
Exhibit D – Year 2005 Mandatory Design Guidelines
Exhibit E - Sample Legal Opinion
Exhibit E-1 - Sample CPA Opinion
Exhibit F - Example 10% Test Letter
Exhibit F-1 - Project Cost Form
Exhibit G - Final Cost Certification Letter
Exhibit H - Imputed Incomes/Allowable Rents
Exhibit I - Application Format
Exhibit L - Market Demand Study Guide
Exhibit W-Architect's Certificate
Exhibit W-1-Fair Housing Act Accessibility Checklist
Exhibit W-2-Contractor's Certificate
Exhibit X – Operational Risk Management Practices
Exhibit Z – Service Provider Questionnaire

1. INTRODUCTION

1.1. Background

The federal low-income housing tax credit (“LIHTC” or “Tax Credits”)¹ program was established by the Tax Reform Act of 1986, codified in Section 42 of the Internal Revenue Code of 1986, as amended (“IRC Section 42”) to encourage construction and rehabilitation of low-income rental housing. The Arizona Department of Housing (“ADOH”) is the housing credit agency responsible for allocating Tax Credits to Owners of qualifying residential rental projects (“Projects”). The Revenue Reconciliation Act of 1989 amended IRC Section 42 by adding Section 42(m), which requires allocating agencies to allocate low-income housing tax credits pursuant to a Qualified Allocation Plan (“QAP,” “Plan,” or “Allocation Plan”). IRC Section 42(m)(1) provides as follows:

(B) QUALIFIED ALLOCATION PLAN--For purposes of this paragraph, the term 'Qualified Allocation Plan' means any plan--

(i) which sets forth selection criteria to be used to determine housing priorities of the housing credit agency which are appropriate to local conditions,
(ii) which also gives preference in allocating housing credit dollar amounts among selected projects to--

(I) projects serving the lowest income tenants, and
(II) projects obligated to serve qualified tenants for the longest periods,
(III) projects which are located in qualified census tracts (as defined in subsection (d)(5)(c) and the development of which contributes to a concerted community revitalization plan
and

(iii) which provides a procedure that the agency (or an agent or other private contractor of such agency) will follow in monitoring for noncompliance with the provisions of this section and in notifying the Internal Revenue Service of noncompliance with the provisions of this section which such agency becomes aware of and in monitoring for noncompliance with habitability standards through regular site visits.

(C) CERTAIN SELECTION CRITERIA MUST BE USED--The selection criteria set forth in a Qualified Allocation Plan must include--

(i) project location,
(ii) housing needs characteristics,
(iii) project characteristics including whether the project includes the use of existing housing as part of a community revitalization plan,
(iv) sponsor characteristics,
(v) tenant populations with special housing needs,
(vi) public housing waiting lists,
(vii) tenant populations for individuals with children, and
(viii) projects intended for eventual tenant homeownership.

(D) APPLICATION TO BOND FINANCED PROJECTS--Subsection (h)(4) shall not apply to any project unless the project satisfies the requirements for Allocation of a

¹ The defined terms that are used in this QAP are in Section 9.

housing credit dollar amount under the Qualified Allocation Plan applicable to the area in which the project is located.

There are two methods for obtaining a Tax Credit Allocation: (i) through an application submitted pursuant to this QAP and (ii) tax-exempt bond financing.

Since the start of the Arizona program in 1987, over \$700 million in private capital has been invested into the State of Arizona (the “State”), assisting in the development of nearly 23,000 Units of affordable housing. The LIHTC program has resulted in the production of affordable housing for low and moderate-income households throughout Arizona.

1.2. General And Specific Goals

A. General Goals. The LIHTC program is not an entitlement program. The federal government has established annual ceilings on the dollar amount of Tax Credits that ADOH may allocate to qualifying Projects, and detailed eligibility standards and priority uses for available Tax Credits. ADOH awards Tax Credits following a competitive process. In furtherance of the statutory provisions affecting the Credit program, ADOH has established the following general goals for allocating Tax Credits in Arizona:

- To maximize the number of affordable rental housing Units added to the existing housing stock;
- To allocate Tax Credits to Projects that provide the greatest overall public benefits;
- To allocate all Tax Credits;
- To encourage development and preservation of appropriate rental housing for people and families that need governmental assistance to find and maintain suitable and affordable rental housing in the private marketplace;
- To enable substantial Rehabilitation of existing rental housing in order to prevent losses to the existing supply of affordable Units;
- To prevent the loss from the existing stock of low-income rental housing of those Units under expiring contracts with federal agencies or subject to prepayment which, without the Allocation of Tax Credits, would be converted to market rate Units;
- To maximize the utilization of Tax Credits;
- To provide an equitable distribution of Tax Credits across the State; and
- To provide opportunities for participation in the Tax Credit program to all qualified sponsors of low-income rental housing.

B. Specific Goals. In addition, in allocating Tax Credits, ADOH seeks to achieve specific goals. These are:

- To use Tax Credits in connection with rental housing "Projects serving the lowest income tenants";
- To use Tax Credits in connection with rental housing "Projects obligated to serve qualified tenants for the longest periods";
- To distribute Tax Credits by apportioning federal tax credit among proposals targeting low-income populations -- including large families, homeless persons, persons with special needs, and senior citizens;
- To hold competition among only those Projects considered sound investments of public funds;
- To expend public funds in the minimum amount necessary to achieve program goals;
- To administer the LIHTC program in a manner that encourages timely Project completion and occupancy; and,
- To encourage the highest available quality and design for Projects financed with Tax Credits.

From year to year, the State may supplement these general goals with more specific goals in order to meet specific affordable housing needs.

2. APPLICATIONS FOR TAX CREDITS

2.1. Amount of State's Annual Credit Authority Available Statewide

The State will receive an annual Allocation of Tax Credits based on a population Allocation of \$1.75 per resident, adjusted for inflation.

2.2. Maximum Tax Credit Reservation

The maximum Reservation for any single Project or Scattered Site Project, not utilizing HOPE VI, will be \$850,000 of the State's annual credit authority and no more than a total of \$2.55 million in any year for any one Owner, Developer, Co-Developer or Affiliate of the Developer or Co-Developer with multiple Projects. ADOH may award Tax Credits for a maximum of three Projects each year to a Developer, Co-Developer and any Affiliate of the Developer or Co-Developer provided one of the Projects is a rural Project. Developers of large Projects may be required to phase their Projects, accepting a Reservation for only one phase during the 2005 program year. Accepting a Reservation for only one phase during any program year will not preclude an Applicant from receiving a subsequent Reservation for a subsequent phase, nor does it guarantee that the Applicant will receive Reservations for any subsequent phases.

Each HOPE VI proposal may only contain one Project regardless of the number or location of buildings. Each HOPE VI Project is subject to a maximum Reservation of up to \$1.2 million from the 2005 State Annual Credit Authority. HOPE VI proposals that intend to utilize more than \$1.2 million in any given year must be done in phases. Each HOPE VI proposal must identify all Tax Credit needs of all development phases in the first application submission. Additional Reservations from future rounds may not be made to the same phases that received a prior Allocation. All subsequent phases that have not

received a previous Allocation are eligible for future Reservations, but are not guaranteed a Reservation. ADOH will award Tax Credits to HOPE VI proposals in an amount not in excess of \$1.2 million.

Applicants may not divide a Project into two or more Projects for the purpose of receiving more Tax Credits in the same year. If ADOH determines that multiple applications in the same year constitute a single Project, ADOH may deny the applications, or combine them into one application. An Allocation, as determined by ADOH, shall not exceed the amount ADOH determines is necessary for the financial feasibility of the Project and its viability as a qualified low-income housing Project.

2.3. Timetable and Application Submission Location

ADOH will hold one Tax Credit application round in 2005. Applications will be available on or about the first business day in January 2005. Applicants must submit to ADOH one original and two complete copies of an application and a non-refundable application fee of \$3,500 for each application on or before 5:00 P.M. March 15, 2005. Applications must be received at the reception desk of the Arizona Department of Housing located on the 2nd Floor of the Executive Tower at 1700 W. Washington, Suite 210, Phoenix, Arizona, 85007. Fax and e-mail submissions will not be accepted. All applications received between January 03, 2005 and 5:00 P.M. March 15, 2005, (the "Deadline Date") will be eligible for consideration.

2.4. Application Format and Compliance

Application material must be in 8-1/2 x 11 format, placed in an adequate sized three ring binder, indexed and tabbed to correspond with the enumeration prescribed below. Exceptions: (1) all drawings/plans may be included unbound if they do not lend themselves to the 8-1/2 x 11 formats. All such plans should be in the smallest practical (readable) format. Maximum acceptable drawing size is C-size; and (2) items of significant volume (such as a real estate appraisal, Market Demand Study, Capital Needs Assessment or environmental reports) may be submitted as separate bound items. Each application must comply with the format and content of this QAP and present to ADOH a clear, unambiguous and complete application by the Deadline Date. ADOH may reject any application that does not conform to the requirements of this QAP or is submitted after the Deadline Date.

2.5. Application Review Process for Projects that are not Bond Financed

Other than Bond Financed Projects, ADOH will score all applications in a competitive review process utilizing the criteria listed herein. ADOH will take the following steps in processing applications and reserving and allocating credits:

(1) Set-Asides - Applications will be categorized based on Set-Asides elected and information included in the application. For Set-Aside information see Section 2.7. of this QAP;

(2) Eligibility Requirements - ADOH will review the application and any other information pertaining to the Applicant and other Development Team members to determine if the eligibility items identified in Section 2.6. have been met. If the requirements outlined in Section 2.6. have not been met, ADOH may reject the application.

(3) Project Score - Each Project will be reviewed and receive points based on the scoring criteria set out in this QAP. Applications will be scored based **SOLELY** on the information supplied in the application. For Project Scoring information refer to Section 2.8 of this QAP.

(4) Project Ranking - Each application must compete for available credits and will be ranked based on the points received. The Applicant must submit complete documentation to receive points. **Notwithstanding the Project's score**, if the Project's Market Demand Study does not adequately demonstrate strong new demand for the specific development being proposed without causing economic disruption to other comparable properties in the market, it shall not receive an Allocation. The Market Demand Study is required as a protection against saturation of Low-Income Units and to ensure absorption of new Units,

(5) Notification of Local Government - ADOH will seek a letter of consent to the Project from the Local Government in the form of Exhibit B. *The letter shall be signed by the City or County Manager (or other appropriate governmental official with specific knowledge of affordable housing needs) or be adopted by resolution of the governing body.* If the Local Government does not consent to the Project, ADOH will reject the application. ADOH will notify the Local Government of an application and request comment on the proposed Project. The notification will be sent directly from ADOH following the Eligibility Review. ADOH will reject applications that are deemed unfavorable by the Local Government.

(6) Reservation List - ADOH will issue a Reservation to those Projects that score highest in relation to all applications, meet the Eligibility Requirements, demonstrate a strong market demand, have received the written consent of the Local Government, and underwriting analysis. ADOH, based upon an evaluation of all applications and in its sole discretion, will issue a letter notifying the Applicant of the Reservation of Tax Credits, which shall include a request for payment of the Reservation Fee described in Section 6, and the requirements needed for the Applicant to satisfy the Carryover Allocation requirements.

(7) Underwriting - ADOH will conduct the first of three underwriting reviews for all Projects. ADOH will establish the Reservation amount following the procedures in Section 2.2., "Maximum Tax Credit Reservation," and in Section 7, "Underwriting," of this QAP. ADOH may require clarifications or other information pertaining to the feasibility of the proposed Project. The Applicant must submit the supplemental underwriting information within 10 business days from the date of the written notification from ADOH. ADOH may reject applications during the underwriting process based on fundamental defects such as arithmetic errors or unfilled funding gaps.

(8) Tax Credit Reservation - ADOH will determine the actual Reservation based upon the Applicant's request. Although the Reservation may not necessarily equal the Applicant's request, the Reservation shall not exceed the amount requested. The final Allocation shall be determined by ADOH, in its sole discretion, in accordance with Chapter 7 of this QAP.

2.6. Eligibility Requirements

A. General Requirements. To ensure that all Projects have a high probability of completion, Applicant and Project must meet the eligibility requirements set forth in this Section 2.6.

The Applicant must submit one original and two copies of a complete and accurate application organized in prescribed sequence and format, as required by this QAP and by the "Arizona Year 2005 Low-Income Housing Tax Credit Program Application Forms and Instructions," together with the non-refundable application fee. ADOH will not accept any additional information, amendment or change to the application after the Deadline Date. Notwithstanding the foregoing, ADOH may make inquiries to the Applicant, architects, engineers, financial institutions and the Local Governments in order to complete the eligibility documentation or to verify the information submitted. ADOH will consider such supplemental documentation for eligibility purposes only, and will not consider the supplemental information in scoring

the application.

ADOH eligibility review will include a review for geographic distribution of the Projects.

An Applicant must be an existing legal entity authorized to conduct business in Arizona and in good standing with the office of the Secretary of State of Arizona. All documents that require a signature must be signed by the Applicant's authorized representative. ADOH will reject forms signed on behalf of an entity that is not duly formed or by a representative without authority.

B. Eligibility. Applications must meet each of the following eligibility requirements. ADOH will reject the application if these requirements are not met.

(1) **Payment of ADOH fees** - The application fee is due with the application. ADOH will reject any application that is not accompanied by the application fee.

(2) Land Control

(a) Land Control for all land needed for the Project must be evidenced by a written governmental binding commitment to transfer the land to the Applicant, a recorded deed or long term lease in the Applicant's name, a lease option or by a fully executed purchase contract or purchase option between the Applicant and record Owner of property. If a purchase contract or purchase option is submitted, the agreement must provide for, respectively, either a closing date or an initial term lasting until September 30th of the year in which the application is submitted. The Applicant must submit the following to ADOH (enclose all required documents at **Tab I**):

- (i) A "Status (Condition) of Title Report" for the property dated within 30 calendar days of the date of the application.
- (ii) For Projects that are not located on governmental or Tribal land, the Applicant must establish that it has legal control of the property by submitting a recorded deed, purchase agreement, purchase or lease option, lease agreement (for a term at least equal to the duration of the Extended Use Agreement), or a resolution by a governmental agency that owns the property.
- (iii) For Projects that are located on governmental or Tribal lands, the Applicant must establish that it has legal control of the property by submitting: (1) an agreement between the Applicant and the Tribe or other government to enter into a lease of specific real property for a term at least equal to the duration of the Extended Use Agreement, and (2) a resolution of a Tribe or other governmental agency authorizing the Tribe or governmental entity to enter into the agreement. For Tribal leases only, ADOH will consider the length of the lease to be the original term of the lease plus the term of any option to renew, provided that the option to renew is held solely by the Applicant.
- (iv) In cases requiring use of powers of eminent domain by the Local Government, the Applicant must enclose evidence that a condemnation lawsuit has been filed for the specific parcels of real property upon which the Project will be situated together with the court's order of possession.
- (v) If the Applicant is submitting a purchase agreement, option, or lease agreement to acquire the real property, the purchase agreement, purchase or lease option, or lease agreement must specify purchase price or rental amount. The term of any lease agreement must be a minimum of 30 years.

- (vi) Any option, with available extensions, should be of sufficient duration that the Applicant can close on the land prior to year-end, subject to the issuance of the Reservation.

(b) Applicants must acquire land and buildings for the Project from unrelated third parties in arms-length transactions. An Applicant may file a written request for a waiver of this requirement with ADOH at the same time that the Applicant filed its application. A written request for waiver must include a full justification for the waiver and it must include, as attachments, an appraisal, which is less than six months old, prepared by an Arizona Certified General Real Estate Appraiser. ADOH may grant the waiver request if it determines the Applicant has demonstrated adequate justification and complied with the requirements of this paragraph.

(3) Satisfactory Progress and Compliance - ADOH may reject applications from Applicants or for Projects having Development Team Members that do not meet the requirements of Section 4.2 of this QAP or have failed to comply with the Tax Credit requirements and conditions in previous applications or developments including, but not limited to, payment of any other fees as described under Subsection B(1) of this section and Chapter 6 of this QAP.

(4) Qualified Project - The Project must be a qualified residential rental Project, which meets the requirements of IRC Section 42. (See Legal Opinion, Exhibit E.)

(5) Placed in Service - The Project must not have been Placed in Service prior to the date the Applicant filed the application. (See Legal Opinion, Exhibit E.)

(6) Form C and Applicant's Certifications - FORM C must be complete and accurate, and signed by the appropriate party. The Applicant is required to make certain certifications in the Applicant Affidavit, Release, and Oath (included in Form C, "Low-Income Housing Tax Credit Application") including a certification that ADOH's minimum design features (Exhibit D) will be complied with in the construction of the Project and that, if they are not, an acknowledgement that all credits awarded to the Project may be surrendered to ADOH. Enclose at **Tab C**, Form C and the Applicant Certification.

(7) IRS Form 8821 - Applicants are required to submit complete and executed copies of IRS Form 8821, "Tax Information Authorization," for the Applicant and each Development Team Member authorizing the Arizona Department of Housing as "Appointee" to receive from the IRS available information regarding any Financial Beneficiary's (see Chapter 9) conduct of its business with the IRS relating to the Low-Income Housing Tax Credit Program. Such information received from the Internal Revenue Service may be used by ADOH in its sole discretion to disqualify an application pursuant to Chapter 4 of this Allocation Plan. Enclose IRS Form 8821 at **Tab C**, behind the Applicant Affidavit, Release, and Oath.

(8) Legal Opinion - Must be on professional letterhead and in substantially similar form to Exhibit E "Sample Legal Opinion". However, it should be noted that the attorney providing the opinion should be as detailed as possible describing all the unique characteristics of the development and how those characteristics qualify for the Tax Credit program. The Legal Opinion must clearly address the 10-year rule regarding the eligibility for acquisition tax credits (See Chapter 9). If the legal opinion submitted in the application is unsatisfactory, ADOH will require the Applicant to update the legal opinion or require an additional opinion from another attorney at the sole expense of the Applicant. Enclose Legal Opinion at **Tab D**.

(9) CPA Opinion - Must be on professional letterhead and in substantially similar form to Exhibit E-1 "Sample CPA Opinion." Enclose CPA Opinion at **Tab E**.

(10) **Legal Formation** – The Applicant must submit evidence that the Applicant and Developer are duly formed legal entities authorized to transact business in the State of Arizona and in good standing with the Office of the Secretary of State of Arizona. Enclose at **Tab F** of the application the Certificates of Good Standing or Existence, as appropriate, , and all other documentation required under this section.

(a) Corporations. If the Applicant or Developer is incorporated in Arizona, a Certificate of Good Standing, issued by the Arizona Corporation Commission and dated not earlier than 30 days prior to the Deadline Date, should be submitted. Applicants and Developers incorporated in another state and doing business in Arizona should submit the following: a Certificate of Good Standing or its equivalent from the state of incorporation dated not earlier than 30 days prior to the Deadline Date **and** a Certificate of Authority to Transact Business in Arizona or a Certificate of Good Standing for such foreign corporation, issued by the Arizona Corporation Commission and dated not earlier than 30 days prior to the Deadline Date.

(b) Limited Partnerships. If the Applicant or Developer is a limited partnership organized under the laws of Arizona, a Certificate of Existence, issued by the Arizona Secretary of State and dated not earlier than 30 days prior to the Deadline Date, should be submitted. Applicants and Developers organized under the laws of another state and doing business in Arizona should submit the following: a Certificate of Existence or its equivalent from the state of organization, dated not earlier than 30 days prior to the Deadline Date, **and** an Arizona Certificate of Foreign Limited Partnership from the Arizona Secretary of State or a Certificate of Existence dated not earlier than 30 days prior to the Deadline Date.

(c) Limited Liability Companies. If the Applicant or Developer is a limited liability company organized under the laws of Arizona, a Certificate of Good Standing, issued by the Arizona Corporation Commission, dated not earlier than 30 days prior to the Deadline Date, should be submitted. Applicants and Developers organized under the laws of another state and doing business in Arizona should submit the following: a Certificate of Good Standing or its equivalent from the state of organization dated not earlier than 30 days prior to the Deadline Date **and** an Arizona Certificate of Authority to Transact Business in Arizona issued by the Arizona Corporation Commission and dated in the year of application or a Certificate of Good Standing for such foreign limited liability company dated not earlier than 30 days prior to the Deadline Date.

(11) **Non-Profit Information** - Under Tab G, the Applicant must submit evidence that the Applicant is a current 501(c)(3) or (4) entity. In addition, the Applicant must execute and enclose at **Tab G** Form G, a “Certificate of Non-Profit Participation,” and all other evidence required. In the case where a governmental or tribal agency is applying for non-profit consideration, it must provide the appropriate 501(c)(3) or (4) documentation, a letter from the executive officer of the Local Governmental or tribal agency. “Non-profit Projects” are Projects in which a qualified non-profit organization (i.e., an IRC Section 501(c)(3) or (4) organization) owns an interest (directly or through a partnership) and materially participates within the meaning of IRC Section 469(h)(i) in the development and operation of the Project throughout the compliance period. **The non-profit organization may not itself be an Affiliate of or controlled by a for-profit organization.** Material participation is defined at IRC Section 469(h)(i) as involvement “in the operations of the activity on a basis that is regular, continuous and substantial.” The ADOH defines “substantial” as having the authority or right to, among other things, participate in the decision-making process for design, location, materials, and management of the Project. In addition, ADOH requires that the non-profit organization provide on a best-evidence basis: (1) IRS documentation of status 501(c)(3)

or 501(c)(4); (2) a description of the nonprofit organization and its activities, to include the promotion of affordable housing in its articles; (3) evidence that it or its officers or members have experience in developing or operating low-income housing; (4) evidence (in the Letter of Intent received from the investment syndicator) that it holds the right of first refusal to acquire the Project following the fifteen-year compliance period; (5) evidence that it has developed an operating plan for the Project covering its role in developing and managing the Project, including its participation in the Developer fee; its control of Project reserves; its plan for maintenance, replacement, and renovation; and its oversight of marketing and of compliance with IRC Section 42; (6) the names of board members of the nonprofit organization; (7) the names and resumes of all paid full-time staff; (8) the sources of funds for annual operating expenses and current programs; (9) evidence of financial capacity in the form of balance sheets and income statements for the past two years; and (10) Form G, “Certificate of Non-Profit Participation,” certifying that the nonprofit organization will materially participate in the development and operations of the Project on a basis which is regular, continuous, and substantial.

(12) **Development Team** – The Applicant must enclose at **Tab H**, Form H, an identification of development parties and financial statements of the Developer or Co-Developer, which must be in full and final form. Applications that do not identify a contractor must do so prior to ADOH issuing a final Reservation. The Developer must demonstrate that it possesses the experience and capacity to successfully complete a proposed Project and any other Projects under construction, and that it has developed Projects of comparable size and financing complexity. If such capacity and experience are not demonstrated, ADOH may reject the application. ADOH may check the references and credit of the Applicant and other Development Team members as it deems necessary to determine Developer capacity.

(13) **Identity of Interest**- There exists an “Identity of Interest” between the Developer, the Management Company or architect and any other Development Team member or prospective member if there is **any** financial or ownership interest, direct or indirect, between the Developer and the other Person. Where there is an Identity of Interest between the Developer and the Builder, the total Developer, Consultant, and Builder fees will be limited to the developer fee in Section 7 plus Builder’s overhead and general requirements. See Section 7.2. ADOH will review other identities of interest among members of the Development Team and may, reduce fees to be paid by the Developer to another Development Team member. Enclose at **Tab H** of the application Form H, disclosing specifically in Section 11 of **Tab H** every Owner of the Developer, the Builder, and the Consultant.

(14) **Zoning** – The Applicant must enclose a fully completed Form J. FORM J must be signed by the appropriate governmental planning and/or zoning official and must evidence that the proposed site is zoned or conditionally zoned for the proposed use. Developments sited on land that is not subject to zoning or which is zoned agriculture are exempt from this eligibility requirement. For sites with conditional zoning approval for the proposed use, documentation from the Local Government stating the specific conditions to be satisfied must be included under **Tab J**. ADOH may determine if the conditions are minor. Projects that are not zoned with minor conditions or are conditionally zoned must obtain final approval by May 15th of the year following the year in which the Carryover Allocation is made.

(15) **Financial Ability to Proceed** - As evidence of commitments for funding sources the Applicant must enclose at **Tab K** the following required documents:

- (a) A Letter of Interest or Intent for both construction period and permanent financing, with a term sheet, where applicable, from each funding source for, in the aggregate, the full amount

of the Project's construction and permanent financing needs (including Tax Credit investors). For all government sources of funds, submission of a copy of the Award Letter is required. However, Applicants seeking funding from a governmental or quasi-governmental funding source, other than State Housing Funds, that has not issued a funding decision prior to ADOH's application deadline, must submit a Letter of Interest or Intent from the funding source with the application.

(b) The Letter of Interest or Intent from each lending source (permanent and construction), excluding any equity investors, should include (i) a term sheet (ii) amount of the loan, (iii) interest rate, including all points, (iv) amortization period, if applicable, (v) term of the loan, (vi) loan-to-value factor, (vii) maximum and minimum debt service coverage allowable (not required if the permanent lending source is a governmental or tribal entity), (viii) all commitment and/or origination fees, (ix) and a description of all other fees directly attributed to the funding of the loan.

(c) For a Developer's loan or Deferred Developer's Fee, insert in the Permanent Financing Table of the application the amount needed to balance sources of funds with Total Estimated Cost. Documentation for Deferred Developer Fee will be required with the final underwriting package.

(d) ADOH may determine whether the Letters of Interest or Intent, Award Letters, or Commitment Letters are satisfactory; whether a lender or investor possesses the financial capacity to make a specific loan or investment; and whether lenders are licensed to conduct business in the State. A change in the financing source or financing terms after Reservation of credits may result in all or a part of the credits being recaptured or reduced by, or returned to ADOH.

(e) Except for those Applicants who have submitted an application for State Housing Funds, if an Applicant intends to use a funding source to fund a funding gap, the Applicant must include a Letter of Interest or Intent from the prospective Lender of gap funds and a Letter of Interest or Intent from an alternative Lender as well.

(f) The application must demonstrate that the Project will be financed in such a manner that **maximum mortgage payments supportable by Project cash flow** are made by the Owner. Applications with coverage ratios above 1.30 for Projects with less than 50 Units or 1.20 for Projects of 50 Units or more will be rejected unless the Applicant or lender has submitted a waiver request justifying higher debt service coverage. Coverage ratios above 1.30 or 1.20, as applicable, must be approved by ADOH. Applications submitted with coverage ratios below 1.15 will be rejected unless the Applicant provides an irrevocable source of adequate additional funds.

(g) ADOH may reject any application with unfilled funding gaps. See Section 7.13. ADOH will consider exceptions only in cases where a State Housing Fund application has been submitted concurrently with the application for Tax Credits, or letter of credit in the event other funding sources are not available.

(h) If applicable, include a commitment from the entity facilitating any operating deficit reserve/escrow funds. See Section 2.6(B)(23).

(16) **Market Demand Study** – The Applicant must submit a Market Demand Study at **Tab L**. The Market Demand Study must be in final form, executed by the analyst and include a statement from the analyst that the report was prepared according to ADOH’s Market Demand Study Guide (see Exhibit L), that the information included is accurate, and that the report can be relied upon by ADOH to present a true assessment of the housing market in the primary area of the proposed development. ADOH may determine the Market Demand Study supplied with the application to be unsatisfactory and may require additional information at the sole expense of the Applicant. Also see Section 2.4., “Application Format.”

(17) **Special Needs Populations** - Applicants that intend to serve Special Needs Populations must complete and execute Form M describing services to be provided and must include any service plans or agreements. Enclose Form M-1, and all documentation required by Form M-1 at **Tab M** as detailed in Section 2.8(10).

(18) **Priority Market Need** – The Applicant must complete FORM N and enclose it at **Tab N**. **Tab N** must be accurate and match page 8 of Form C. *Tax Credit Unit income and rent thresholds cannot exceed the maximum established by IRC Section 42 (60% AMGI when using the 40/60 convention or 50% AMGI when using the 20/50 convention). The maximum rent threshold is based on the income level selected on FORM N.*

Example: If the 40% AMGI rent level is selected on FORM N, then the rents may not exceed the maximum allowable rent per IRC Section 42. However, the income of a qualified tenant may exceed the 40% AMGI level by a maximum variance of 5% unless IRC Section 42 or other federal requirements prohibit such a variance.

(19) **Tenant Ownership** – The Applicant must include at **Tab O** of the application: (1) a Letter of Intent from a qualified non-profit organization to purchase the Units, including a calculation of the purchase price and (2) a detailed description of the ownership proposal that includes financial counseling services plan, tenant identification, Unit pricing in accordance with IRC Section 42(i)(7), a program for down-payment assistance, a marketing strategy, and a proposed sale agreement.

(20) **Historic Preservation** - The Applicant must enclose at **Tab P** all documentation evidencing historic preservation as detailed in Section 2.8.(F)(1), “Historic Preservation.”

(21) **Monitoring Compliance** – The Applicant must include at **Tab Q** a plan that describes the method, training and education of the management agents responsible for the daily adherence to IRC Section 42, State and local requirements.

(22) **Marketing Plan**- The Applicant must include at **Tab R** an affirmative marketing plan in accordance with fair housing requirements.

(23) **Pro Forma and Operating Expenses** -The Applicant must include at **Tab S** a 15-year pro forma and operating expense data. The 15 year pro forma must be signed by the first mortgagee (or the syndicator/investor if the Project is funded 100% by equity) that exclusively reflects the following language verbatim: “We acknowledge that this pro forma substantially matches the assumptions used in our underwriting and due diligence of the mortgage (or equity investment).”

The pro forma must precisely reflect the rent structure in the application, all lenders’ assumptions such as principal and interest payments, non-rental income, detailed operating expenses, required reserves, annual fees, debt service coverage ratio etc., as well as other characteristics that impact the financial feasibility (for example, cost of Supportive Services). The 15Year pro forma must mirror the operating assumptions and rent structure as shown in the application.

If the pro forma reflects negative cash flow in any year, the application shall demonstrate the funding and utilization of an operating deficit escrow account or describe the source of the operating deficit funds. A commitment from the entity facilitating the operating deficit reserve/escrow funds needs to be included at **Tab K** with the other funding source documents.

The 15 Year pro forma may reflect rental assistance only if such assistance is evidenced at **Tab K** with the other funding source documents.

Applicants shall submit at least two forms of data supporting the operating expenses stated in the pro forma (for example, database information from similar Projects, comparable Project information as illustrated in a Market Demand Study, IREM information or Real Data information). ADOH may require submission of the audited financial statements for comparable Projects owned by the Applicant. Rehabilitation Projects may submit 3 years of historical information as evidence of operating expense assumptions.

(24) Project Location – The Applicant must include at **Tab T** of the application: (1) an 8x10 map or fold-up map clearly indicating the Project location; (2) detailed directions to the site from the nearest major intersection; (3) an additional 8x10 or fold-up map indicating the following facilities located within 2 miles of the proposed development:

- a. Existing LIHTC or any other governmental subsidized housing developments
- b. Retail centers
- c. Medical complexes
- d. Recreational Facilities
- e. Educational Facilities
- f. Large scale employment centers
- g. Public transportation

(25) Community Revitalization - The Applicant must enclose at **Tab U** the following: (i) a copy of the municipal ordinance or resolution by which the governing body of the municipality or county designated the area as a housing priority area or evidence the property is located in one of the following: (a) a federal empowerment zone or federal enterprise community, (b) a Redevelopment Area (c) an established HUD Neighborhood Revitalization Strategy Area, or (d) a geographic area or parcel of property that has been established by the Local Government as part of a comprehensive affordable housing plan and (ii) a map showing boundaries of the housing priority area and the location of the Project within the housing priority area. The map must clearly show the names of the roads, streets or other boundaries of the housing priority area and also clearly reflect the location of the Project on such roads or streets. If the resolution or ordinance does not include the specific boundaries of the housing priority area, then also include Form U, signed by an authorized representative of the municipality or county, stating that the Project is within the boundaries of the designated housing priority area.

(26) Utility Allowance Schedule – The Applicant must include at **Tab V** of the application: (1) letters from the local utility providers indicating water, sewer, and electrical utilities are available to the site; and (2) a copy of the most recent and current utility allowance schedule from the local Public Housing Authority, utility company or other source. The current utility allowance schedule is

the basis for the utility allowances entered on page 6 of the application. The utility allowance schedule, published by the local Public Housing Authority, utility company, or other source (see IRS Regulation 1.42-10 to determine the appropriate source of the schedule), must be accompanied by a letter from the issuing authority dated no sooner than 30 days prior to the date of application submission. The letter from the issuing authority must state that the utility allowance schedule submitted is the current schedule.

(27) **Drawings and Plans** – The Applicant must include at **Tab W** the preliminary drawings and renderings of the development. Include (1) a site plan showing the general development of the site, including the building and parking location and proposed landscaping; (2) if the Project proposes a community facility, include the community building layout and net floor area; and (3) Elevations for each proposed building and clubhouse. The Applicant must submit plans and specs (submitted to the Local Government for approval) at the time of Carryover. Also enclose at **Tab W**, completed Exhibit W.

(28) **Property Design Standards** - As applicable, all newly constructed and rehabilitated properties must meet the current Uniform Building Code, the National Standard Plumbing Code, the National Electric Code, the 2000 International Energy Code, the International Building Code and the Federal Fair Housing Act (42 U.S.C. §§ 3601, et seq.), the Arizona Fair Housing Act (A.R.S. §§ 41-1491 through 41-1491.37), and HUD Fair Housing Regulations (24 C.F.R. Part 100, subpart D), the Uniform Federal Accessibility Standards (Section 504 of the 1973 Rehabilitation Act) and the Americans with Disabilities Act (42 U.S.C. §§ 12101 through 12213). The Applicant must include at **Tab W**, completed Exhibits W, W-1, and W-2 signed by the Architect for the Project and the general contractor respectively for the Project certifying that the Project meets the above design standards.

(29) **Lead-based Paint** - If the Project includes a building or structure that was built before January 1, 1978, the Applicant must have a lead-based paint inspection completed by a certified lead-based paint inspector. That inspector must prepare and the Applicant must include in its application at **Tab W** a complete copy of that report. If the report indicates the presence of lead-based paint, the Applicant must include at **Tab W** : (1) a written amelioration plan for the elimination and disposal or encapsulation of the lead-based paint, and (2) a written on-going maintenance plan to manage the lead-based paint.

(30) **Project Schedule** – The Applicant must complete and execute Form X and insert it at **Tab X**.

(31) **Capital Needs Assessment** - Applicants are required to provide to ADOH a Capital Needs Assessment (“CNA”) for all rehabilitation and combined acquisition and rehabilitation Projects. Insert at **Tab Y** a CNA that meets the requirements outlined below. Applicants must include a statement from the architect or engineer that the report was prepared according to ADOH’s CNA Guidelines and that the information included is accurate and that the report can be relied upon by ADOH to present a true assessment of the proposed rehabilitation budget and immediate repairs required at the property. ADOH may determine the CNA report is unsatisfactory and may require additional information at the sole expense of the Applicant.

The CNA shall examine and analyze the following building components:

- Site, including topography, drainage, pavement, curbing, sidewalks, parking, landscaping, amenities, water, storm drainage, gas and electric utilities and lines;

- Structural systems, both substructure and superstructure, including exterior walls and balconies, exterior doors and windows, roofing system, and drainage;
- Interiors, including Unit and common area finishes (carpeting, vinyl tile, plaster walls, paint condition, etc.), Unit kitchen finishes and appliances, Unit bathroom finishes and fixtures, and common area lobbies and corridors;
- Mechanical systems, including plumbing and domestic hot water, HVAC, electrical, and fire protection; and
- Elevators.

The CNA report shall include the following major parts:

- Critical Repair Items. All health and safety deficiencies, or violations of housing quality standards, requiring immediate remediation. If the Project has tenants, these repairs are to be made a first priority.
- Two-Year Physical Needs. Repairs, replacements, and significant deferred and other maintenance items that need to be addressed within 24 months of the date of the CNA. Include any necessary redesign of the Project and market amenities needed to restore the property to the standard outlined in this QAP, Exhibit D. These repairs are to be included in the development budget and funded by construction-period sources of funds.
- Long-Term Physical Needs. Repairs and replacements beyond the first two years that are required to maintain the Project's physical integrity over the next twenty (20) years, such as major structural systems that will need replacement during the period. These repairs are to be funded from the reserves for replacement account.
- Analysis of Reserves for Replacement. An estimate of the initial and monthly deposit to the reserves for replacement account needed to fund long-term physical needs, accounting for inflation, the existing reserves for replacement balance, and the expected useful life of major building systems. This analysis should not include the cost of the critical repair items, the two-year physical needs, or any work items that would be treated as operating expenses.

The professional preparing CNA report must:

- (a) Be an architect or mechanical/structural engineer licensed by the State.
- (b) Conduct site inspections of a minimum of 35 percent of all Units. Units shall be randomly sampled while taking into consideration the Unit size mix, e.g., one-bedroom, two-bedroom, etc. All vacant Units must be inspected.
- (c) Identify any physical deficiencies as a result of (i) visual survey, (ii) review of pertinent documentation, and (iii) interviews with the property Owner, management staff, tenants, community groups, and government officials.
- (d) Identify physical deficiencies, including critical repair items, two-year physical needs, and long-term physical needs. These should include repair items that represent an immediate

threat to health and safety and all other significant defects, deficiencies, items of deferred maintenance, and material building code violations that would limit the expected useful life of major components or systems.

- (e) Explain how the Project will meet the requirements for accessibility to persons with disabilities. Identify the physical obstacles and describe methods to make the Project more accessible, and list needed repair items in the rehabilitation plan.
- (f) Prepare a rehabilitation plan, addressing separately all two-year and long-term physical needs.
- (g) Prepare a replacement reserve schedule, including an estimate of the initial and annual deposits, accounting for inflation and based on a 20-year term.
- (h) Conduct a cost/benefit analysis of each significant work item in the rehabilitation plan (items greater than \$5,000) that represents an improvement or upgrade that will result in reduced operating expenses (e.g., individual utility metering, extra insulation, thermo-pane windows, setback thermostats). Compare the cost of the item with the long-term impact on rent and expenses, taking into account the remaining useful life of building systems.

(32) **Internet Access** - All Units shall be wired with three networks back to a central location: 1) a network for phone using CAT-5 wire; 2) a network for television using COAX cable, and 3) a network for data using CAT-5 wire.

2.7. 2005 Set-Asides

(A) **BASED ON SCORING.** An Allocation will not be made to more than one family, and one elderly category Project (one Project for each Special Needs Project category) with no more than \$850,000 being devoted to Special Needs Populations Projects per Tax Credit round in cities, towns, and Census Designated Places with populations of 50,000 or less according to the 2000 U.S. census data. As a priority, and at the sole discretion of ADOH, ADOH will award Tax Credits first to the highest-scoring applications meeting all Eligibility requirements and Underwriting Criteria in each of the following set-aside categories:

SCORING SET-ASIDES	
HOPE VI	A total of \$1.2 million is available for HOPE VI Projects
Acquisition/Rehabilitation – Urban	Acquisition/Rehabilitation development located in an urban area where 100% of the Units undergo rehabilitation
Acquisition/Rehabilitation – Rural	Acquisition/Rehabilitation development located in a rural area where 100% of the Units undergo rehabilitation
Special Needs Populations	A total of \$850,000 is available for Projects allocating 100% of their Units to Special Needs Populations.
Senior Set-Aside	A total of \$1,000,000 for Senior Projects allocating 100% of their Units to Seniors (62 or older or handicapped) with Supportive Services.
Tribal Land	A total of \$850,000 for Projects located on Tribal Lands
Rural Council of Governments	One Project located in each of the four Rural Councils of Governments Regions (see Chapter 9, “Council of Governments”). In cases where another set-aside has provided a development within a particular Rural Council of Governments Region, no additional development shall be provided by this set-aside.

Non-Profit Set-Aside	20% of the State's annual credit authority is set-aside for "non-profit Projects," as defined in Section 2.6(B)(11) of this QAP. Only non-profit Projects that meet all of the eligibility requirements will be eligible for an Allocation of non-profit set-aside credits. The Allocation of non-profit set-aside credits will be based on the rankings of non-profit Projects under the scoring system.
Rural Set-Aside	10% of annual credit authority is set aside for Projects to be located in rural areas. For purposes of this paragraph, "rural areas" shall mean counties fewer than 400,000 in population according to the most recent United States decennial census and "Census County Divisions" under 50,000 in population in counties with populations of 400,000 or more according to the most recent United States decennial census. These Projects may compete for overall credit authorization. If no application meeting the requirements of this QAP for rural areas is submitted, rural set-aside funds may be pooled with non-set-aside funds for Allocation to any Project.

(B) In its sole discretion, ADOH may limit the number of developments in a specific market or geographical area based on concentration or negative impact in a given market area. In the case where multiple applications are submitted for a given market area, ADOH will select the application that scores the highest within its set-aside category. If the Project does not fall within a set-aside category, selection will be based on scoring and new market need. If multiple applications are filed for a given market area proposing to serve different populations (e.g., elderly, family or Special Needs Populations), ADOH will analyze the applications to ensure that neither Project will be unnecessarily redundant or may cause harm to the other.

(C) DIRECTOR'S DISCRETION. \$850,000.00 of the State's annual Low-Income Housing Tax Credit authority is reserved by and for the Director of ADOH to allocate in the Director's sole and absolute discretion to Projects that need additional credits because of technical errors of ADOH or Projects with severe hardships.

- (1) SEVERE HARDSHIP. Requests based on severe hardships may be submitted from 1-3-05 to 8-15-05 along with an additional application fee of \$2,500. Hardship requests must be documented to the satisfaction of ADOH and must demonstrate the existence of an unforeseen hardship or emergency situation where the completion of the Project is jeopardized without an award of additional Tax Credits.
- (2) MAXIMUM CREDIT ALLOCATION. Applicants cannot apply for Tax Credits from the Director's discretion if they have already received the maximum credit Allocation allowed by eligible basis limits, gap financing limits or the Maximum Tax Credit Reservation limits.
- (3) UNRESERVED SET-ASIDE. Any Director's Discretion Set-Aside authority not reserved to specific Projects by August 15, 2005, or such earlier date that may be selected by the Director, will be released to be used for Projects on the Year 2005 waiting list.

(D) Those Projects meeting the eligibility requirements, but not ranking high enough to receive Tax Credits during the Year 2005 application round, will be placed on a waiting list and remain eligible to receive any Tax Credits returned during the Year 2005. Depending upon availability returned Tax Credits will be allocated to the next highest scoring Year 2005 Project(s) in the queue meeting threshold criteria as described above.

2.8. 2005 Project Scoring

- (A) ADOH will conduct scoring based solely on the information submitted in the application.
- (B) A self-scoring sheet will be provided with the application and will require the Applicant's signature. It is to be submitted behind the cover letter at **Tab A**.
- (C) ADOH will not award points if the correct forms or required information are not submitted, or are not submitted at the correct tab.
- (D) ADOH will count Employee Units (see Chapter 9, Definitions) as 60% Low-Income Units in making scoring calculations.
- (E) The Applicant's commitment to serve specific populations as set-asides shall be binding for the duration of the Extended Use Period and shall be included in the recorded Extended Use Agreement. ADOH will monitor resident files to determine that the set-asides are being honored.
- (F) ADOH will score Projects in the following 14 categories:

(1) Historic Preservation: 25 points

15 points for (i) A letter from the National Parks Service or State Historic Preservation Office (SHPO) identifying the structure as individually listed in the National Register of Historic Places, or (ii) A structure certified by the National Parks Service, SHPO Office or Certified Local Government as contributing to a Register District (a Register District is a designated area listed in the National Register, or listed under State or Local Statute as substantially meeting the requirements for listing of districts in the National Register), or (iii) Location of a Project within an area that has been zoned an historic area. The Applicant must include the municipal zoning ordinance that was adopted on or before the Deadline Date and a letter from the local municipality indicating that the design will meet the requirements outlined in the zoning ordinance. (At **Tab P**, submit the appropriate evidence as identified above.)

10 points- for Projects that have received a preliminary approval from SHPO, National Parks, or the Local Government for historic Tax Credits. (At **Tab P**, submit the preliminary approval for the Historic Tax Credits.)

(2) Acquisition/ Rehabilitation: 30 points

Projects containing Acquisition/Rehabilitation and New Construction will be given points in this category only if the rehabilitation Units total 50% or more of the total Project and the Acquisition/Rehabilitation is 100% of the acquired Units. The type of rehabilitation improvements and the amount of rehabilitation costs shall be appropriate for the Project and proportionate to the benefit as determined by ADOH. ADOH will utilize the services of a cost estimator in determining whether the rehabilitation costs are reasonable. The Applicant shall be responsible for the costs of the cost estimator. Cost of rehabilitation per Unit is determined by adding Direct Construction Costs and appliances, then dividing that sum by the number of qualified rehabilitation Units.

*Applicants should indicate that the Project is a Rehabilitation or Acquisition/Rehabilitation in the Cover Letter of the application (**Tab A**) and on Form C, as applicable.*

<i>Cost of Rehabilitation per Unit</i>	<i>Points Awarded</i>
<i>\$15,000+</i>	<i>30</i>
<i>14,999-10,000</i>	<i>15</i>
<i>9,999-5,000</i>	<i>10</i>

(3) Tenant Ownership: 3 points

3 points - will be awarded if 100% of the Project is designed for tenant ownership after the 15-year compliance period. (At **Tab O**, provide: (A) Letter of Intent from a qualified non-profit organization to purchase the Units, including how the purchase price will be calculated at the end of the 15 year compliance period should no qualified tenants be identified; (B) a detailed description of the ownership proposal to include: (i) financial counseling services; (ii) how the eligible tenants will be identified and offered the right of first refusal; (iii) how the Units will be priced in accordance with IRC Section 42(i)(7); (iv) down payment assistance; (v) marketing strategy; and (vi) proposed sale agreement. Applicants that intend to utilize these points shall be required to execute and record an Extended Use Agreement that indicates the provisions set forth above for the remaining compliance period. Also, there are additional fees associated with these points. See Chapter 6, Fees. **Only Projects consisting of exclusively single family, duplex or four-plex designs with no more than 60 Units are eligible for this scoring item.**

(4) City, Town or County not receiving an Allocation of Tax Credits in past: 20 points

20 points - will be awarded to Projects that are located within a City, Town, unincorporated area in any County, or tribal reservation within the State that has not had an Allocation for a Project within its geographical limits within the last several years. This determination will be made by type of Project (i.e. Family, Elderly, Special Needs Populations). A list of qualified Cities, Towns or Counties is available through ADOH.

Note: The Market Demand Study must also support the need for affordable housing located in these areas.

<i>Number of Years</i>	<i>Points Awarded</i>
<i>10+</i>	<i>20</i>
<i>5-9</i>	<i>10</i>
<i>3-4</i>	<i>5</i>

(5) Developer Experience Points for New Construction or Rehabilitation: Maximum of 15 points awarded for Developer experience category.

Up to 15 points are awarded for Developer experience with either rehabilitation or new construction of residential rental Projects using the LIHTC program or significant participation by a Developer(s) with a demonstrated track record in the timely development of new construction or rehabilitation of residential rental housing. In scoring this category, ADOH will count the number of residential rental Projects Placed in Service by the Developer, any Co-Developer, and any Person who owns part of either the Developer or Co-Developer. These points are not available for Consultants or other development team professionals. If a Project relies on a Co-Developer's experience, the Applicant must submit to ADOH, as part of **Tab H**, a written agreement between the Developer and the Co-Developer that outlines the length of time that the Co-Developer will be associated with the development of the Project and evidencing the scope of the Co-Developer's participation in the development of the Project.

Attach at **Tab H** Form H-1 and any additional lists of residential rental housing Projects developed by the Developer, any Co-Developer and any Person who owns part of either the Developer or Co-Developer. (Include the name of the Developer or other Person, name of the Project, address of the Project, city, state, number of rental Units, and the role the Developer played in development of the Project.)

Number of Projects	Points Awarded
5+	15
3-4	12

(6) Rent Restricted Units Set-Aside for 50% and 40% AMGI Tenants: a maximum of 35 points max for any combination of set-asides of Low-Income Units at 50 or 40 AMGI (15 points for 50% AMGI and 20 points for 40% AMGI).

*See Section 2.6 (18) Priority Market Need for guidance regarding the income and rent restrictions regarding these points. Attach at **Tab N** of the application Form N, "Commitment to Lower-Income Set-Aside."*

**(NOTE: This calculation is based on total Units in the Project).*

50 % AMGI Rural Points	50% AMGI Urban Points
51% += 15	61% += 15
21-50% = 10	41-60% = 10
10-20% = 5	20-40% = 5

Up to 20 points are awarded for rent restricting a percentage of total Units for populations at 40% AMGI. Rents will be restricted for the Low-Income Units to ensure that households pay no more than 30% of the applicable income limit during the Extended Use Period.

40% AMGI Rural Points	40% AMGI Urban Points
41% += 20	51% += 20
16-40% = 15	21-50% = 15+
5-15% = 10	5-20% = 10

(7) Development Location - Community Revitalization Projects: 15 points

15 points will be awarded if the proposed Project is located within a geographic area or parcel of property for which a specific housing or an economic development objective has been established by the local, federal or state government. These may include the following:

- Federal Empowerment Zones or Federal Enterprise Communities
- Redevelopment Areas
- Established HUD Neighborhood Revitalization Strategy Areas
- Established Colonias as designated by the United States Department of Agriculture or HUD
- Geographic areas or parcels of property that are established by the Local Government as part of a comprehensive affordable housing plan.

Include at **Tab U:** (i) evidence the property is located in the above areas or a copy of the municipal ordinance or resolution by which the governing body of the Local Government designated the area as a

housing priority area and (ii) a map showing boundaries of the housing priority area and the location of the Project within the housing priority area. The map must clearly show the names of the roads, streets or other boundaries of the housing priority area and also clearly reflect the location of the Project on such roads or streets.

If the resolution or ordinance does not include the specific boundaries of the housing priority area, then also include **Form U**, signed by an authorized representative of the municipality or county, stating that the Project is within the boundaries of the designated housing priority area.

(8) Projects in a QCT, DDA or outside an MSA: 10 points

If a Project is located within a Qualified Census Tract (QCT) or Difficult Development Area (DDA), or outside of a Metropolitan Statistical Area (MSA) as designated by HUD the Project will be awarded 10 points.

(9) Family Project: 20 points

20 points will be awarded for Projects in which at least 40% of the Low-Income Units are three or four bedrooms and have a minimum of two bathrooms.

(10) Project Zoning: 10 points

10 points are awarded for successful documentation that zoning is in place for all Project land. Zoning that has been conditionally approved by the Local Government will receive points only if the Applicant submits documentation from the Local Government stating the specific conditions to be satisfied and ADOH is satisfied that the conditions are minor. On sites that don't require zoning, the Applicant must submit a letter from the appropriate governmental entity stating such. For Projects located on Tribal lands, a Tribal resolution may be used to substitute for zoning certification. The Tribal resolution should state that the Project will be located in an area where the zoning requirements established by the Tribal government permit the Project or, if there are no specific zoning requirements, in an area in which the Tribal government authorizes the Project to be constructed and operated. Include at **Tab J** of the application ADOH **Form J**, "Project Zoning Certification," and other documentation required under this section.

(11) Special Needs Populations: 10 points

10 points will be awarded to Projects of which at least 25% of the Project serves Special Needs Populations. ADOH will review all service agreements and pre-approve applications that intend to utilize these points. The following information must be submitted to ADOH no later than February 13, 2005 to receive an evaluation letter. ADOH will respond with an evaluation letter no later than March 1, 2005. Applicants must provide evidence of past experience with the particular Special Needs Populations to be served, a client source (e.g. letters from a referring agency, etc.) and service agreement for each population served, which also must be inserted at **Tab M**. This agreement must be on the service entity's letterhead, signed and dated by both parties. The Applicant must also submit under **Tab M** other documentation that demonstrates previous experience for each entity that will be providing services. Also submit Forms **M** and **M-1**. Applications that are not pre-approved by ADOH or do not demonstrate satisfactory experience serving Special Needs Populations will not be eligible for these points. ADOH will require that the applicable set-aside be included in the Extended Use Agreement before issuing a final Allocation and will monitor performance of these set-asides throughout the compliance period.

(12) Senior Projects:

10 points for Projects serving 80% or more elderly individuals (at least one individual in the household must be 55 years of age or over).

15 points for Projects serving individuals who are 62+ years of age or who are disabled, and must offer Supportive Services (see Chapter 9). The tenant file must include proof of date of birth or proof of the qualifying disability. The Project will not contain 3 or 4 bedroom Units.

*Applicants should indicate this intention on Form C of the application and enclose at **Tab M** of the application Form M, "Commitment to Set-Aside Units," along with the supporting documentation required by that form, and Form Z.*

(13) Mixed Income: 5 points

This category offers an incentive to develop Projects for mixed income populations. Points will be awarded based on the percentage of market rate Units in the Project (total market rate Units divided by total Units in the Project).

% Market Rate Units	Points
50%	5
40-49%	4
30-39%	3
20-29%	2
10-19%	1

(14) Rural Development: 15 points

15 points are available for new construction Projects that are funded by United States Department of Agriculture (USDA) through the Section 515/514/516 and Section 538 programs. Acquisition/rehabilitation Projects funded by USDA are eligible for points under the acquisition rehabilitation category but are not eligible for points under this category.

(15) Water Conservation: 10 points

10 points are available for Projects, which include water conservation devices into the Project, e.g., alternative and low-flow toilets, low-volume showerheads, aerator or flow restrictor devices in the faucets, front-loading or horizontal axis washers, and Xeriscape Landscaping.

2.9 Rents

The project's LIHTC rent should be 10% below market rents in the area the Project is going to be built, as evidenced by the Market Demand Study.

2.10. Tiebreaker

In the event two Projects in the queue have the same score, the following tiebreaker will be used.

Tiebreaker Criteria (possible points = 12)

1. Efficient use of credits per tax credit Unit: 1 point (calculation will be made before QCT and DDA adjustments)
2. Rehabilitation Projects: 4 points
3. Rural: 1 point
4. Sole Non-profit: 1 point
5. Efficient use of Tax Credits per Occupant: up to 2 points
6. Direct Construction cost per Bedroom less land and soft costs: up to 3 points

These are not bonus points and are not added to the Project's total score. This scoring system only determines the ranking of Projects with the same final score under the Program's competitive scoring process.

2.11. Project Ranking

All of Arizona's available Year 2005 annual Tax Credit authority, and any Tax Credits returned after January 1, 2005 or made available from the National Pool, will be available for Reservation in 2005, except that portion of the Tax Credit authority reserved in the Director's Discretion set-aside. Of the State's total annual Tax Credit authority, 10% is set aside for rural Projects, 20% is set aside for Projects owned/operated and controlled by non-profit corporations, \$850,000 is reserved for the Director's Discretion set-aside. In addition, Tax Credits will first be awarded to the highest scoring Projects identified in each of the "set-aside" categories set forth in Section 2.7. ADOH will establish a waiting list from eligible applications not receiving Reservations. This waiting list will remain in existence until December 31 of the Application Year. ADOH, however, reserves the right to hold Tax Credits during the application period, and to accept applications after the Deadline Date for consideration after all applications in this round have been reviewed.

Those Projects meeting the eligibility requirements (see Section 2.6.), but not ranking high enough to receive Tax Credits during the current application round, may be eligible to receive any Tax Credits returned during the Year. Depending upon availability, ADOH will allocate Tax Credits that have been returned and those it has received during the Year from the National Pool to the next highest scoring Year 2005 Project(s) on the waiting list meeting the eligibility requirements. ADOH will award Tax Credits per the ranking until December 31 of the Application Year. ADOH will carry forward remaining Tax Credits to the next calendar year as permitted under IRC Section 42. Any Applicant not receiving Tax Credits from the current Year Allocation must resubmit its application in order to be considered for subsequent Year's Tax Credits. ADOH reserves the right not to reserve or allocate Tax Credits for any Project(s) in 2005, regardless of ranking under the Project scoring criteria, if it determines, in its sole discretion, that an Allocation for such Project does not further the purpose and goals set forth in IRC Section 42 or in the QAP, or otherwise attempts to circumvent the goals and requirements of the QAP or ADOH.

2.12. Carryover Allocation

Projects under which the Applicant intends to place buildings in service after December 31, 2005, may receive a Carryover Allocation. Federal law allows a Carryover Allocation of Tax Credits for Projects that have expended, within six (6) months of the Allocation of credits, **more than 10%** (including land costs) of the reasonably expected basis in the Project by the close of the second calendar year. The following information is required for a Carryover Allocation and must be submitted to ADOH in 8-1/2 x 11 format, a three ring binder of adequate size, on or before the close of business December 1, 2005:

- (1) An updated application (ADOH **Form C**);
- (2) Per building Eligible Basis information required on **Draft Table A** (ADOH supplied form).
- (3) A 10% Test strategic plan, which includes the following items:
 - (a) A CPA or Legal Opinion which attests to the basis in the land, eligible basis, and amount of Tax Credits reserved for the Project and the amount of cost to be incurred to satisfy the 10% Test, as referenced in Section 2.12 of this QAP (the form of this opinion may be similar to **Exhibit E-1** "Sample CPA Opinion"); and
 - (b) "Project Cost Form" (**Exhibit F-1**) which shall indicate what line items will be expensed or accrued to meet the 10%Test.
- (4) Evidence, from the appropriate State agencies or commissions, that the entity that will own the Project is an existing legal entity authorized to transact business in the State and the ownership entity's taxpayer identification number. If the Applicant does not have a fully formed qualified legal entity that will own the property to which ADOH can assign the Allocation of Tax Credits, Satisfactory Progress (as described in Sections 2.6 (B)(3) and 4.2.) has not been met and ADOH may reject the application.
- (5) Provide, in accordance with IRC Section 42(m)(2)(B)(i) and Section 2.6. (B)(15) herein, all updated, draft and firm financing documents in existence including, but not limited to, the equity syndication prospectus (offering memorandum or equity letter), limited partnership agreement, operating agreement or joint venture agreement, partnership administration services agreement, development agreement, any amendments to the aforementioned documents, and any relevant agreement between and among the relevant parties setting forth the terms of the financial arrangements, final Commitment Letters and mortgage documents.
- (6) A written certification from an independent engineer that he or she has evaluated the utility capacity of the Project and that the utilities will meet the Project's needs.
- (7) A Phase I Environmental Review Report for all Projects.
- (8) Payment of all applicable fees to ADOH.
- (9) Any additional information requested by ADOH.
- (10) Copy of the Plans and Specs for the Project (submitted to the Local Government for approval).

2.13. 10% Test and Other Required Documentation

IRC Section 42(h)(1)(E)(ii) requires Applicants with an executed Carryover Allocation to meet a 10% Cost Test the later of (a) the date which is 6 months after the date the Allocation is made, or (b) the close of the calendar year in which the Allocation is made. ADOH has chosen the close of the calendar year in which the Allocation is made to meet the 10% Test because Allocations are made in June. To determine if a Project with a Carryover Allocation is or has progressed in a satisfactory manner, the IRS requires a test of whether the amount of qualified costs which have been accrued or expensed within the six months described above is greater than 10% of the reasonably expected basis (eligible basis plus land). This 10% Test shall be certified by an Independent Auditor's Report in 8-1/2 x 11 format, placed in an adequately sized three ring binder and shall include the following:

- (1) A certification in the form of **Exhibit F** and **Exhibit F1** completed by an independent third-party certified public accountant or qualified tax attorney, on firm letterhead, that 10% or more of the reasonably expected basis in the Project has been incurred by the above-prescribed dates. If the Developer fee is included in the 10% Test basis it must be reasonable (should not be greater than 20% of the total Developer fee and should not include fees that will be deferred). A certification that is equal to or less than 10% may result in ADOH revoking the Carryover Allocation due to unsatisfactory progress.
- (2) Evidence of ownership or basis in the land and improvements (if applicable), supported by a title report and closing statement from the title company. On governmental or Tribal lands, the Applicant must provide evidence of a fully executed, irrevocable lease between the Developer/Owner and the Tribal or other government for a specific rental amount and a term equal to or longer than the Extended Use Period and, for Tribal lands, evidence that all necessary approvals have been secured from the Tribe, the Bureau of Indian Affairs (BIA), and other governmental agencies.
- (3) Complete copies of all applicable construction contracts for the Project.
- (4) Applications for Projects not previously Placed in Service must provide evidence that the Project is now appropriately zoned for the proposed use and that the Local Government permits the construction of the proposed Project.
- (5) Evidence of appropriate building permits or any other applicable permits allowing for the construction of the Project, issued by the Local Government within 275 calendar days of the executed Carryover Allocation Agreement.

2.14. Forward Commitments

ADOH may consider forward commitments for Projects. Projects that will be considered for a forward commitment are the first Project on the waiting list which is short \$100,000 or less in Tax Credits based on the requested amount in the application if such amount of Tax Credits is necessary for funding of the Project. Applicants that exceed the \$100,000 are not eligible for a Forward Commitment. Forward commitments will be granted by ADOH in its sole discretion

2.15. Questions

ADOH will accept written questions concerning its scoring of items in an Applicant's application. Questions must be based solely on facts provided in the Applicant's original application. Copies of ADOH's scoring sheets are available at ADOH and may be copied for the standard fee.

2.16. Non-Allocated Projects

Those applications that fail to receive an Allocation by December 31 of the Application Year are denied. Applicants who's Projects are denied must reapply and compete in subsequent years to be considered for Tax Credits. All fees paid to ADOH are non-refundable.

3. TAX CREDITS FOR DEVELOPMENTS FINANCED WITH STATE VOLUME CAP BOND AUTHORITY

3.1. Determination of Tax Credits for Tax-Exempt Bond Projects

IRC Section 42(h)(4) allows low-income housing Projects financed with tax-exempt bonds to be eligible for 4% Tax Credits if they meet the minimum requirements of the QAP. Applications for Projects financed with tax-exempt bonds may be submitted to ADOH as soon as Applicants receive confirmation of volume cap Allocation from the Finance Division of the Arizona Department of Commerce (phone: 602-771-1112, fax: 602-771-1208). At the time of final Allocation, Applicants sponsoring tax-exempt bond financed Tax Credit Projects will be required to pass all eligibility requirements (see Chapter 2.6), adhere to all General Regulations set forth in this QAP, and comply with all applicable requirements under Section 5, “Final Tax Credit Allocation.” Applicants should consult with their legal advisors to determine a Project’s eligibility. Applications for eligible tax-exempt bond Projects may be submitted, will be reviewed, and ADOH may allocate such Tax Credits outside the normal application round. The review of an application for a Determination of Qualification under IRC Section 42(m)(1)(D) will coincide with the Tax-Exempt Bond Hearing that is required under A.R.S. Section 35-726(E).

Tax-exempt bond financed Projects may receive Tax Credits on the full amount of their eligible basis only if at least 50% of the Project’s “aggregate basis” of any building and land upon which the building is located is financed with tax-exempt bonds. Tax-exempt bond Projects with funding gaps, requesting State Housing Funds to fill those funding gaps, must submit an application at the same time that the Applicant submits its Tax Credit application. The procedures followed by ADOH in processing applications for bond-financed Projects are set forth below.

(A) Upon application:

1. ADOH will review Tax Credit applications at any time of the year after the Applicant has received a final resolution from the bond issuing authority. An Applicant must submit a complete Tax Credit application, at least 30 calendar days prior to the Section 35-726 (E) hearing. The Applicant must use the current year Tax Credit application forms. The application must be accompanied by the appropriate application fee.
2. To fully utilize 4% Tax Credits for tax-exempt bond Projects, the Applicant must include a letter from a certified public accountant or tax attorney at **Tab A** that attests that 50% or more of the Project’s aggregate basis of any building and land upon which the building is to be located is “financed” by the tax-exempt obligation.
3. ADOH will determine whether the Applicant and the Project comply with all eligibility requirements of the QAP.
4. The Applicant must submit a certification that principal payments on the bonds will be applied within a reasonable period of time to redeem bonds that funded the financing for the Project.
5. ADOH will perform the first of two feasibility analyses to determine the amount of credits necessary for the viability of the Project. Before ADOH will make a Determination of Qualification of Tax Credits, ADOH will complete underwriting and comparison of the application submitted for the Section 35-726(E) hearing. ADOH feasibility analysis will include an underwriting of the Project in accordance with ADOH’s current standards as set forth in this QAP.
6. The Applicant must pay all required fees to ADOH when due.

(B) After Volume Cap Allocation for the bonds:

1. ADOH will issue a Determination of Qualification letter after both the Section 35-726 (E) hearing and after ADOH issues an approval letter.
2. The Applicant will submit to ADOH a written election statement, referencing IRC Section 42(b)(2)(A)(ii)(II). This election statement will certify that the Applicant has chosen to lock in the applicable percentage as of the Placed in Service date or as of the month that the tax-exempt bonds are issued. If the latter is elected:
 - (a) The certification must specify the percentage of the aggregate basis of the building and the land on which the building is located that is financed with bond proceeds;
 - (b) The certification must state the month in which the bonds are issued;
 - (c) The certification must state that the month in which the bonds are issued is the month elected for the applicable percentage to be used in the building;
 - (d) The certification must be signed by the Applicant;
 - (e) The Applicant must provide the original notarized election statement to ADOH before the close of the 5th calendar day following the end of the month in which the bonds are issued. If this certification is not received by that date, then ADOH must use the percentage based on the Placed in Service date; and
 - (f) The Applicant must provide ADOH with a signed statement from the governmental Unit that issued the bonds that certifies: (1) the percentage of the aggregate basis of the building and the land on which the building is located that is financed with bond proceeds and (2) the month in which the bonds were issued.
3. At the Placed in Service date, the Applicant will submit to ADOH: (a) a completed cost certification, and (b) an opinion of the Applicant's certified public accountant that 50% or more of the aggregate basis for any building included within the Project and the land on which the building is located are financed with tax-exempt bonds, and (c) an opinion of the Applicant's counsel that the Project is eligible to receive Tax Credits under IRC Section 42(h)(4). At this point ADOH will perform the final feasibility analysis of the Project.
4. The Applicant will submit to ADOH the recorded Extended Land Use Agreement and Consent and Subordination Agreement for the Project along with certifications that:
 - (a) The bonds issued to finance all or a portion of the Project have received an Allocation of the State's private activity bond volume cap pursuant to 26 U.S.C. § 146;
 - (b) That principal payments on the bonds will be applied within a reasonable period of time to redeem bonds the proceeds of which were used to provide financing for the Project; and
 - (c) That the governmental Unit which issued the bonds made a determination under rules similar to those set forth in IRC Section 42 (m)(2)(A) and (B) that the housing credit dollar amount for the Project does not exceed the amount necessary for the financial feasibility of the Project and its viability as a qualified low-income housing Project throughout the credit period.

5. If the requirements of IRC Section 42 and this QAP are satisfied, ADOH will issue IRC Form 8609 for the Project at the applicable credit percentage under IRC Section 42(B)(2) and will file the original of the election statement with the original of the Form 8609 with the appropriate IRS Form 8610.

4. GENERAL REQUIREMENTS

4.1. False Filing

An application, including all exhibits, appendices and attachments thereto, made to ADOH for an award of low-income housing Tax Credits, including any materials filed at a later time with ADOH in connection with an application, is considered to be an “instrument” for the purposes of A.R.S. Section 39-161. According to that statute, knowingly including any false information in or with the application is a class 6 felony. Such an act may also result in barring the Applicant and Development Team Members from future awards of low-income housing Tax Credits. In addition, false filing may be subject to the provisions of A.R.S. Section 13-2311, “Fraudulent schemes and practices; willful concealment....”

4.2. Satisfactory Progress

Applicants who have previously received a Determination of Qualification, Reservation or Allocation in Arizona or any other state must make Satisfactory Progress and be in substantial compliance with the requirements of federal law with respect to all prior Projects before ADOH will consider a new application. “Satisfactory Progress” means that the Applicant including any Person with an ownership interest in the Applicant or Development Team Member, has presented sufficient evidence, as determined by ADOH that the Applicant has met the benchmarks for various phases of the development of each Project e.g. financing, construction or rehabilitation, as established in the Project schedule (Form X) submitted in the Tax Credit application, or as may otherwise be reasonable or as amended and approved by ADOH. If the Applicant fails to demonstrate Satisfactory Progress, ADOH may recapture the Reservation or Allocation of Tax Credits and reject any new application from the same Applicant, Development Team, any Person with an ownership interest in the Applicant, or a member or members of the Applicant or Development Team.

Applicants that have received previous Allocations must demonstrate Satisfactory Progress towards any Project Placed in Service (See Section 9, Definitions). Applicants that have not closed on construction loans or utilized bond proceeds for construction within 240 days of Allocation are not eligible for future awards without a written waiver request explaining the circumstances causing and justifying the delay. Waivers for any delay shall be granted or denied by ADOH in its sole discretion. All Applicants that have received a Determination of Qualification or Reservation, Carryover Allocation or Allocation will be required to report on Project progress, using Form X, the “Project Schedule,” accompanied by a brief narrative, every 60 calendar days after receipt of the Determination, Reservation, Carryover Allocation or Allocation. Applicants with Projects that include Tax Credits that have not received a final Allocation must make a written request for an approval of the deviation from the approved Project schedule submitted with the application. Projects that are not proceeding according to the original Project schedule submitted, and approved amendments, may be subject to revocation due to lack of Satisfactory Progress.

ADOH may monitor both the progress and quality of construction. If progress or quality has not been satisfactory, ADOH may report significant deficiencies to any funding source, to other members of the Project team, and to the Applicant.

4.3. Change of Ownership

ADOH's prior written approval is required for any kind of change of ownership of the Applicant. Once a Determination, Reservation, Carryover Allocation or Allocation has been issued for a Project, transfer of ownership of that Project (sale of ownership of any kind) will constitute an automatic event of revocation by ADOH. ADOH may revoke or reverse a Determination, Reservation, Carryover Allocation or Allocation or reduce the amount of Tax Credits at any time.

4.4. Special Needs Populations

For Projects serving Special Needs Populations, the Project Owner will provide Supportive Services to the residents. It is the Owner's responsibility to plan and coordinate these Supportive Services so that they are provided by on-site providers or by existing off-site social service agencies. This requirement will be included in the Applicant's Extended Use Agreement. The Applicant must appropriately detail and break down the costs in its Supportive Services operating budget.

In all cases, tenants applying for Special Needs Population Low-Income Units must present to the property manager a letter of referral or equivalent documentation from a licensed M.D. or recognized social service agency, certifying the tenant as a member of the Special Needs Population and noting any special accommodations required.

4.5. Senior Projects

The Project Owner will provide to the residents a service package that promotes the resident's quality of life and independence while providing efficient delivery of Supportive Services to the residents.

4.6. Revocation of a Certificate of Qualification for 4% Tax Credits, Tentative Award Letter, Certificate of Reservation or Carryover Allocation for 9% Tax Credits.

ADOH may deny or revoke a Determination of Qualification for 4% Tax Credits, Tentative Award Letter, Reservation or Carryover Allocation for 9% Tax Credits for any Project. Denial or revocation may occur at ADOH's sole discretion, due to actions taken by the Applicant, Affiliate or Project Owner from time of the Certificate of Reservation up to the Placed in Service date, for any of the following reasons:

- (1) Subsequent regulations issued by the Department of Treasury or the Internal Revenue Service.
- (2) Information submitted to ADOH is determined to be fraudulent.
- (3) Failure to pay fees.
- (4) Failure to meet eligibility requirements, as outlined above, or other requirements of this QAP.
- (5) Site evaluation and suitability based on the market impact on other affordable housing developments within the primary market area, the proximity to railroad tracks, freeways, excessive noise levels and general site suitability and other conditions regarding clean title, easements, floodplains or wetland issues.
- (6) Failure to make Satisfactory Progress as defined in Section 4.2. of this QAP towards Placed in Service date.
- (7) Instances of curable or incurable noncompliance existing at any time during the compliance period for any federal or state subsidized Project located in any state.
- (8) Applicant or Owner fails to promptly notify ADOH of any material or adverse changes from the original application.
- (9) Material Changes without written approval of ADOH.
- (10) Change in Unit design, square footage, Unit mix, number of Units, number of buildings

without the written approval of ADOH.

- (11) Debarment by HUD or other Federal and State programs, bankruptcy, criminal indictments and convictions.
- (12) Failure to comply with federal or state Fair Housing Laws.
- (13) Other cause demonstrating the failure of the Applicant or the Project to be qualified or meet the requirements of federal or state law or the requirements of the applicable tax credit program.

4.7. Disqualification

ADOH will reject an application if ADOH the Applicant, including any Person with a Controlling Interest in the Applicant or other members of the Development Team have: (a) failed to make Satisfactory Progress in the construction or rehabilitation of any Project ; (b) not corrected compliance problems in other tax credit Projects in a timely manner; (c) not paid, when due, ADOH's compliance monitoring fees or any other fees required by ADOH; (d) filed with ADOH any materials containing false information, documents, or instruments, whether in the Application Year or prior program years; (e) failed to build a previously-approved Project in conformity with the terms, provisions, and agreements contained in the application submitted to ADOH, in the applicable year's Allocation Plan, and in the Extended Use Agreement for the Project, including but not limited to, the terms, provisions and agreements to conform to the minimum design standards, install equipment, amenities, or design features to serve a specific target population, to provide a specific mix of Unit sizes, to serve Special Needs Populations, or to set aside a certain number of Units for persons at or below a specific percent AMGI; (f) developed or partially developed prior Projects that are poorly constructed, evidence substandard workmanship, or do not comply with ADOH's Minimum Design Standards; or, (g) been convicted, are currently under indictment or complaint, been found liable or is currently accused of fraud in this state or any other state, or misrepresentation relating to: (1) the issuance of securities, (2) the development, construction, operation, or management of any Tax Credit or other government subsidized housing program, (3) the conduct of the business of the applicable party, in any criminal, civil, administrative or other proceeding, or (4) any filing with the Internal Revenue Service in any state.

4.8. Extended Use Period

Pursuant to IRC Section 42, the State requires that all recipients of Tax Credits enter into an initial 15-year compliance requirement and an additional extended use restriction for at least an additional 15 years after the initial compliance requirement, extending the total commitment to a minimum of 30 years. Prior to the issuance of Form 8609(s), the Owner of the Project will be required to execute and record with the county recorder where the Project is located, such an Extended Use Agreement, which shall constitute a restrictive covenant running with the property upon which the Project is located. The agreement shall be in the form provided by the State and is available from ADOH upon request. See Section 5.4.

4.9. Acquisition of Land and Buildings

Applicants are required to acquire land and buildings from unrelated third parties in arms length transactions. Requests for a waiver of this requirement must be submitted with the application and include a full justification, including an appraisal less than six months old prepared by an Arizona Certified General Real Estate Appraiser.

4.10. Material Changes

Notwithstanding the foregoing, ADOH strongly desires that each Applicant strictly adhere to the terms of

its application, which was the basis upon which any Reservation or Allocation was made. All Material Changes must be approved by ADOH . In order to obtain ADOH approval of a Material Change, the Applicant must submit a written request to ADOH explaining the change and the reasons justifying the change. A \$1,000 Administration Fee must accompany the written request. ADOH will not consider the request unless the fee is included. Because of ADOH's statutory mandate to award Tax Credits only to the extent they are necessary for Project feasibility, the Applicant must communicate in writing any proposed Material Change in the Project immediately to ADOH for an assessment of the impact on final underwriting and Allocation . The written request must include the Applicant's reasons under IRC Section 42 or in this Allocation Plan for believing that the change is permissible. Projects applying for a Material Change will be underwritten to the standards in the Allocation Plan of the year that Tax Credits were awarded. The Applicant must submit to ADOH written approvals of the Material Change from the Local Government, the lender, and the syndicator as discussed below.

- A. Change of Location and Use. ADOH will not allow an Applicant to change the location of a Project once the application has been submitted. Notwithstanding the foregoing, ADOH, may allow a Project relocation prior to the Carryover Allocation of Tax Credits if the new site for the Project is within the census tract specified in the application, ADOH receives the written approval of the Unit of Local Government, and the need for relocation was unforeseeable and beyond the Developer's control at the time of application. If an Applicant changes the location of a Project without the written approval of ADOH, ADOH will revoke the Tax Credits Determined or Reserved for the Project. Changes in the use of a Project (e.g., elderly, family, transitional) after the application has been submitted will not be allowed except with the written approval of both the Unit of Local Government and ADOH. See also below "Complex Material Changes" if the change in location involves an increase in Project costs.
- B. Changes to Principals. Substitution of a general or limited partner, or in syndicator or permanent lender may constitute a Material Change, and therefore, must be reviewed by ADOH. If ADOH determines there is no negative effect on the Project's feasibility, the change will not be considered material and no fee is due.
- C. Complex Material Changes. Complex Material Changes, (e.g. restructurings that involve a change in the number of Units in the amount of borrowed funds, or in the sources of funds), will be reviewed following the guidelines below:
 - (1) Unforeseeable circumstances or the imposition of extraordinary governmental rules and regulations, if fully documented and justified, will be viewed as reasons to approve Material Changes.
 - (2) When a Project is underwritten as the result of a Material Change, any decrease in the scoring or ranking of the Project will not be allowed.
 - (3) Requests for Material Changes necessary to prevent substantial hardship to the Project or its feasibility will be considered for approval by ADOH on a case-by-case basis.
 - (4) If, without approval of a waiver at the time of application, cost caps are later exceeded and create a need for additional funding, ADOH resources will not be a source of the additional funding. In addition, ADOH may consider the presence of newly found sources of governmental or non-governmental funds in a Project as evidence that ADOH State Housing Funds are not needed in the Project. If that occurs, ADOH may reduce or eliminate its

contribution to the Project.

(5) When the Material Change involves a restructuring, all commitments (e.g., set-asides, amenities) must be proportionately the same as at time of application.

D. Failure to get ADOH approval. If the Applicant fails to obtain ADOH's approval to Material Changes, ADOH may recapture or reduce all or part of the Tax Credits Determined or Reserved for the Project.

4.11. Distribution of Units

Projects shall allocate the low and moderate income Units among the different sized Units to reflect the same percentage distribution as the number of different size Units to the total number of Units. A greater percentage of the low and moderate income Units may, however, be allocated to the larger Units. Additionally, low and moderate income Units shall be distributed throughout the Project so that tenants of those Units will have equal access to and enjoyment of all common facilities of the Project.

4.12. Amendments to the QAP

ADOH may modify this QAP, including its compliance and monitoring provisions, from time to time, or for any other reasons as determined by ADOH: (i) to reflect any changes, additions, deletions, interpretations, or other matters necessary to comply with IRC Section 42 or regulations promulgated there-under; (ii) to insert such provisions clarifying matters or questions arising under this QAP as are necessary or desirable and that are contrary or are inconsistent with this QAP or IRC Section 42; or (iii) to cure any ambiguity, supply any omission or correct any defect or inconsistent provision with this QAP or IRC Section 42.

4.13. Disclaimers

ADOH makes no representations to the Applicant, Developer, Owner, or syndicator or to any other Person as to Project eligibility or compliance with the Code, Treasury Regulations, or any other laws or regulations governing the Low-Income Housing Tax Credit program. No member, officer, agent or employee of ADOH shall be liable for any claim arising out of, or in relation to, any Project or the Tax Credit program. Applicants will be required to execute a release and indemnification of ADOH and related parties prior to issuance of the Form 8609.

4.14. Return of Tax Credits

At any time, ADOH may determine that Tax Credits reserved in a Reservation or awarded in a Carryover Allocation or a Letter of Qualification (for Tax-Exempt Financed Developments) be returned to ADOH upon notice to the Applicant.

5. FINAL TAX CREDIT ALLOCATION

5.1. Final Tax Credit Allocation and First Year Certification by ADOH

By law, an Applicant must receive a Determination of Qualification or a Certificate of Reservation and a Carryover Allocation of Tax Credits from ADOH by December 31 of the Application Year. ADOH will make a final determination of the amount of Tax Credits at the time the Project is Placed in Service. ADOH will evaluate the Project's final costs and the amount of revenues from the sale of the Tax Credits.

ADOH's final evaluation may include a review of invoices, canceled checks and contracts. Accordingly, ADOH encourages Developers to keep detailed records of construction costs. ADOH, in its sole discretion, may reduce credits based on its final evaluation and require a return of Tax Credits to ADOH. The Applicant must submit an 8609 package within 120 calendar days of the last building being Placed in Service. Along with the 8609 package, the Applicant must also submit a complete copy of an appraisal of the Project and the property prepared by an Arizona Certified General Real Estate appraiser indicating the value of land and buildings separately. At the time of a final Allocation, ADOH and the Applicant will execute and record an Extended Use Agreement. Evidence of that recording must be presented to ADOH before the issuance of IRS Form 8609(s). Applicants will receive a final Allocation of Tax Credits as described below.

5.2. First Year Certification and Issuance of Final Allocation (IRS Form 8609)

For buildings that are Placed in Service as part of a qualified Project (by December 31st following the 24 months of closing of the bonds or from issuance of a Carryover Allocation), and upon compliance with all requirements of the Code and ADOH, ADOH will issue an IRS Form 8609 for each building as of the time the building is Placed in Service. The Applicant must fully pay all fees and file the following items in 8.5x11 format, adequately bound, in a three ring binder and tabbed to correspond to the following order prior to 8609 issuance:

- (1) An updated application (ADOH Form C).
- (2) A 15 year pro forma, in the form stated in Section 2.6.B(23) of this Allocation Plan, starting with the Placed in Service date.
- (3) A permanent lender's final appraisal of the Project.
- (4) All Certificates of Occupancy, issued by the appropriate governmental authorities, for qualifying buildings that must indicate the dates the buildings were Placed in Service and the addresses of those buildings.
- (5) An Owner's Certification of actual costs (ADOH supplied form).
- (6) An Independent auditor's report certifying the final cost (ADOH supplied sample).
- (7) The Applicant's building by building Tax Credit computation (on ADOH form Table A).
- (8) A letter from the permanent lender summarizing the terms and conditions of the permanent loan. Upon closing of the permanent loan, the Applicant must submit copies of the promissory note and deed of trust to ADOH.
- (9) A Promissory Note from the Project's ownership entity payable to the Developer in an amount sufficient to cover any Deferred Developer Fee. Other forms of obligation to pay may be substituted if allowed under the definition of Deferred Developer Fee and if they include the following: (1) the interest rate; (2) the term of repayment; (3) the source of repayment and proof that the source of repayment is supported by cash flow Projections or a binding commitment from a party capable of repayment; and (4) if there is a lien, language stating that the lien is subordinate to other liens relating to permanent financing.
- (10) An Extended Use Agreement and Consent and Subordination Agreement signed by the

Applicant (form provided by ADOH). All agreements to be signed and recorded by December 31st must be submitted to ADOH not later than December 1st of that same year.

- (11) One 8 x 10 color photograph of at least one of the Project's buildings with signage.
- (12) A Statement detailing the Project's first Credit Year.
- (13) Final partnership, operating, or joint venture agreements.
- (14) An investor certification letter (ADOH provided form).
- (15) Written certification from the architect that the Project meets the minimum requirements of the Uniform Building Code, Uniform Mechanical Code, Uniform Plumbing Code (1994 Editions), National Electrical Code (1993 Edition), Uniform Federal Accessibility Standards, 2000 International Energy Conservation Code (IECC), the International Building Code and the HUD Fair Housing Regulations (24 C.F.R., Part 100, Subpart D). (See Form W.)
- (16) Certification from the Owner that the Project complies with the minimum design features required. (See Form W.)
- (17) Certification from the Arizona Energy Office that the Project complies with the 2000 International Energy Conservation Code (IECC) (contact the Energy Office at the Arizona Department of Commerce: (602) 771-1149).
- (18) Proof of flood insurance, as applicable.
- (19) Any additional information requested by ADOH.

5.3. Final Allocation Underwriting

Prior to the issuance of IRS Form 8609(s), ADOH will underwrite the Project a final time using actual sources and uses of funds. Applicants must submit to ADOH a final cost certification, executed loan documents for all funding sources, and a copy of the final executed agreement with the equity investor. ADOH will perform an Equity Gap Analysis a third and final time. Unreasonable costs, changes in financing sources, funding amounts, or excess equity may reduce the final amount of Tax Credits.

The requirements for the final cost certification are set forth in IRS Regulation 1.42-17. It states that the Applicant must certify to ADOH the full extent of all federal, state, and local subsidies that apply (or that the Applicant expects to apply) to the Project. The Applicant must also certify to ADOH all other sources of funds and all development costs for the Project. The Applicant must prepare the required schedule of development costs based on the method of accounting used by the Applicant for federal income tax purposes, and it must detail the Project's total costs as well as those costs that may qualify for inclusion in eligible basis under IRC Section 42. The Applicant must make the required certifications on the Certificate of Actual Costs Form (ADOH supplied form). IRS Regulation 1.42-17 also requires that Projects with greater than 10 Units submit a Certified Public Accountant's audit report on the schedule of Project costs. The CPA's audit must be conducted in accordance with generally accepted auditing standards, be unqualified, and be presented substantially in the form of Exhibit G to this QAP.

5.4. Extended Use Agreement

- (A) IRC Section 42(h)(6) requires that the Project be subject to an "extended low-income housing

commitment.” ADOH complies with these requirements by the execution and recording of an Extended Use Agreement at the time of the final Allocation. The Extended Use Agreement sets forth covenants running with the land for a minimum of 30 years. The Extended Use Agreement will also indicate the Units set-aside for lower income tenants, the percentage of median income tenants served, the special needs characteristics of tenants, tenant ownership, amenities, Supportive Services and other commitments or requirements, if any, that may apply based on the QAP or application. ADOH provides a standard form Extended Use Agreement.

(B) Applicants who have received a Determination of Qualification or Reservation and Carryover Allocation of Tax Credits and desire to have the Extended Use Agreement completed and recorded by the end of the year must request it by November 1, 2005. Any requests submitted after the November 1st deadline may not be completed by the end of the year.

6. FEES

6.1. Application Fee

A non-refundable fee of \$3,500 is due ADOH at the time of submission of the application. Applications will be rejected unless accompanied by this fee. For Applicants requesting joint LIHTC/State Housing Fund funding, please consult the current Notice of Funding Availability of the State Housing Fund for applicable fees.

NOTE: Please note that in accordance with the recent Rev. Ruling. 2004-82, application fees for applying for LIHTC are no longer allowed in basis.

6.2. Director’s Discretion Application Fee

Applicants for hardship requests must submit an additional application fee of \$2,500 to ADOH. Hardship requests must be documented to the satisfaction of ADOH and must demonstrate the existence of an unforeseen emergency situation where the completion of the Project is jeopardized without an award of additional Tax Credits.

6.3. Building Permit Extension Fee

Within 240 calendar days of the executed Carryover Allocation Agreement, the Developer must submit ADOH evidence of appropriate building permits allowing for construction of the Project, issued by the appropriate governing municipality. If the Developer requires additional time, ADOH will grant a 30-day extension upon payment of a \$3,500 extension fee together with a written request for the extension, which must explain the reasons for the extension request. After three extensions, however, ADOH may revoke an Allocation, if it determines that the Applicant has not achieved Satisfactory Progress in accordance with Section 2.6.B(3) and Section 4.2..

6.4. Determination or Reservation Fee and Final Allocation Fees

(A) ADOH will assess a Final Allocation Fee and either a non-refundable Determination of Qualification Fee (4% Tax Credits) or Reservation fee (9% Tax Credits) to process an application to the point of Tax Credit Determination or a non-refundable Reservation. ADOH will calculate the total Determination of Qualification Fee or the Reservation Fee as a percentage of Tax Credits requested by the Applicant and the Final Allocation Fee as a percent of the amount of Tax Credits allocated. The percentages applicable to the Determination of Qualification Fee and the Reservation Fee are:

- (1) For-profit Applicants: 10.0%
- (2) Non-profit sponsored Applicants: 8.0%

(B) The total fee is payable as follows:

(1) The Determination of Qualification or Reservation Fee is payable after determination that an application represents a feasible and viable Tax Credit Project with a likelihood of completion. The Applicant must pay the Determination of Qualification or Reservation Fee to ADOH prior to issuance of a Determination of Qualification (4% Tax Credits) or Reservation (9% Tax Credits).

(2) Four percent Allocations that qualify for more Tax Credits at final Allocation will be required to pay an additional Reservation Fee on the additional credits at the final Allocation submission according to the following percentages of the additional credits:

- (i) For-profit Applicants: 8.0%
- (ii) Non-profit sponsored Applicants: 6.0%

(3) The Final Allocation Fee of 2% is payable upon the issuance of an Allocation of credit as evidenced by the IRS Form 8609. The Applicant must submit the Final Allocation Fee together with the final Allocation information submitted in accordance with Section 5 of this QAP and prior to issuance of the IRS Form 8609(s). The Final Allocation Fee will be 2% of the final Tax Credits allocated.

6.5. Applicant's Obligation for Fee Payment

ADOH will assess the non-refundable Determination or Reservation Fee and Final Allocation Fee for the purpose of covering the costs and expenses of processing an application to the point where the Applicant may receive a final Allocation. If a Determination or Reservation or Carryover Allocation is not assignable due to action or inaction by the Applicant, the fees are nonetheless due and payable to ADOH upon demand. If ADOH does not award the entire Allocation amount, upon issuance of Form 8609, ADOH will not refund any of the Determination or Reservation Fee and Final Allocation Fee.

6.6. Tenant Ownership Fees

Applicants with applications that include Tenant Ownership will be required to pay an additional \$4,000 legal review fee at the same time that they pay the Determination or Reservation Fee.

6.7. Carryover Allocation Late Fees

ADOH will charge a Carryover Allocation Late Fee of \$250 per day for any information received after the December 1st deadline of the Application Year. Carryover information not received by the close of business December 15 of the Application Year, will result in the Project not receiving a Carryover Allocation. In extreme circumstances, such as a late Reservation of Tax Credits, ADOH may waive the Carryover Allocation Late Fees.

6.8. Ten Percent Test Late Fees

If the Developer requires additional time to submit the information required under Section 2.13, ADOH may grant extensions of 30 calendar days upon payment of the \$3,500 extension fee. After three extensions ADOH may refuse to grant any further extensions and may reject the application if the Applicant has not achieved Satisfactory Progress in accordance with Sections 2.6. (B)(3) and 4.2. ADOH

will charge a \$500 per day fee for documentation regarding items (1) through (4) above submitted after the announced Deadline Dates. No documentation will be accepted after close of business on the announced dates. ADOH will recapture all Tax Credits and notify the Applicant if documentation is submitted later than the deadline.

6.9. Administration Fees

Applicants must submit a fee of \$1,000 to ADOH before any interim underwriting requested by the Applicant or additional underwriting required by ADOH due to a Material Change is performed. If the Applicant fails to pay the Administration Fee, ADOH will recapture all Tax Credits allocated to the Project.

6.10. Compliance Monitoring Fees

Every Applicant for a Project that receives an Allocation must pay to ADOH a non-refundable monitoring fee to cover compliance monitoring of the Project by or on behalf of ADOH. The monitoring fee will be \$50 per Low-Income Unit plus an annual report fee as listed below. ADOH will assess the monitoring fee annually and the monitoring fee will be due on or before March 15th of each year along with the submission of the annual report.

Number of Units	Annual Report Fee
0 to 50 Units	\$300
51 to 99 Units	\$550
100 + Units	\$1,050

ADOH will assess a \$100 late fee for every 30 days that the Applicant is delinquent in paying the monitoring fee after March 15th.

6.11. Fees Are Not Refundable

All fees set forth in this Chapter 6 are nonrefundable.

7. UNDERWRITING

7.1. Underwriting Standards

Congress charges ADOH with allocating Tax Credits at the minimum level needed to realize the financial feasibility of a Project and its viability as a qualified low-income Project throughout the Extended Use Period. ADOH must make this determination three times: (1) at application; (2) at Carryover Allocation; and (3) at the Placed in Service date. ADOH, in its sole discretion, may request an update to any information contained in the application and thereafter underwrite a Project at any time based on such updated information, and will do so at the time of construction loan closing for Projects partially funded by the State Housing Fund.

ADOH will perform an evaluation of the Project costs to determine reasonableness as compared to other Projects in similar areas. Generally, costs in excess of 110% of the Department of HUD's most recent 221(d)(3) base mortgage limit for a three bedroom elevator building—currently \$89,719 per Unit— will not be permitted to be included in basis (although such costs are not prohibited). However, in unusual and well-documented cases, costs in excess of this limit may be included in eligible basis based on ADOH's underwriting analysis. Unusual cases may include, but are not limited to, small size Projects, Projects

located in Qualified Census Tracts or in a federally designated empowerment zones, federal enterprise community locations, HOPE VI Projects, Projects with deep rent targeting, Projects sponsored by local nonprofit organizations, Projects in Difficult Development Areas, or difficult substantial rehabilitation Projects.

In conducting its evaluations, ADOH will apply the following reasonableness standards in regard to fees:

A. Developer and Consultant Fees (excluding "Consultants" normally used in the development process, such as market analysts, environmental Consultants, construction manager/Consultant when not included in the construction contract, etc.) *ADOH will limit the Developer fee, overhead, and Consultant fees in calculating the amount of Tax Credits to be allocated to a proposed Project. The following parameters will change, however, if the Project is subject to subsidy layering analysis and/or there is an Identity of Interest between the Developer and the Builder.*

**Developer Fee, Overhead, and Consultant Fee Limits
As A Percent Of Total Eligible Basis In
Cost Categories I-V of the Development Budget**

Number of Units	Percent Allowed
1-15	18%
16-30	17%
31-45	16%
46-60	15%
61+	14%

For Category IX of the Development Budget, Developer's Fee, Overhead and Consultant Fee limits for Acquisition/Rehabilitation Projects are calculated using 14% on the eligible acquisition cost to be listed in the 4% column; the chart above will be utilized to calculate the developer's fee, overhead and Consultant fee on the eligible rehabilitation cost in the 9% column.

B. Factors:

(1) Project Need. ADOH will evaluate the Market Demand Study to ascertain that there is strong new market demand for the type of low-income housing proposed. The Market Demand Study must be in the form and format required by ADOH. (See Exhibit L to this QAP.) ADOH underwriters will review data submitted concerning the market area; the target population (e.g., e, large family, priority populations with special housing needs); occupancy levels and vacancy rates of comparable Projects; absorption rates for comparable Projects recently entering the market; and current waiting lists, including the waiting list of the local Public Housing Authority. ADOH underwriting review will assess the risk associated with adding the proposed Units to the housing stock, including the risk of economic disruption to properties already offering comparable housing in the market area. If the Market Demand Study submitted with the application is incomplete, ADOH may require the Applicant to supplement the study in whole or in part before the evaluation of market risk can be completed. The Applicant must pay for any supplements ordered by ADOH.

(2) Affordability of Proposed Rents. ADOH underwriter will review the proposed LIHTC rents to determine whether they are: (i) 10% below market rents being charged for the same type Units in the Primary Market Area (PMA), (ii) will be affordable to the target population; and (iii) will generate sufficient income to cover operating expenses and debt service of the Project. The primary focuses of this review are affordability to the residents, the appropriate quality of the

proposed housing, including design features and amenities committed to by the Developer/Owner, and the Project's long-term viability as affordable housing. This review will attempt to balance the initial cost of the Project against the affordability to low-income residents and against long-term viability. The review evaluates the risk of obtaining proper value for the taxpayer's investment and how that value is distributed between affordability and long-term viability.

(3) Developer Experience and Ability to Deliver the Project as Designed in the Time Allotted.

ADOH will assess the "Developer risk," - the possibility that the Development Team is insufficiently skilled, experienced, or financed to deliver as promised. ADOH underwriter will review resumes and financial statements of key members of the Development Team for indications of sufficient experience and borrowing capacity. ADOH will investigate any indications of Identity of Interest among members of the team to determine whether appropriate adjustments should be made to the compensation allowed the team.

(4) Project Feasibility. ADOH will award Tax Credits to only those Projects that ADOH determines are feasible. ADOH underwriter will determine whether all costs are appropriate and reasonable, the site can be built as proposed, all utilities and necessary community amenities are available to the site, and once completed, the Project will be able to make available affordable housing to the targeted low-income residents throughout the proposed Extended Use Period.

(5) Overall Project Cost Reasonableness. At each of the three times that underwriting is performed, ADOH shall review the cost reasonableness of all Project costs in order to calculate the amount of eligible basis for the Project. Failure to comply with cost reasonableness could be the basis for the denial, reduction, or return of a Reservation or Allocation of credits, at any of the three times underwriting is performed.

(6) Reasonable and Customary Costs. All costs must be reasonable and customary with respect to Projects of comparable size and type, mix, location and amenities. ADOH will determine cost reasonableness from, among other sources, a database compilation of the experience of prior multifamily Projects in the State and consultation with construction cost experts.

(7) Acquisition Cost Limits. For Project land for multi-story multifamily Projects consisting of more than the limits in the table below, the Applicant must submit a plot plan on which all undeveloped land has been clearly identified.

Bedrooms	Net Area Per Unit (Sq. Ft.)
0-Bedroom	1,700
1-Bedroom	2,200
2-Bedroom	3,500
3-Bedroom	4,200
4-Bedroom	4,800

Applicants for Projects awarded Reservations must substantiate land and building acquisition costs with an appraisal prepared by an Arizona Certified General Real Estate Appraiser as part of Carryover documentation, or, if the Project does not require Carryover, at final Allocation (see Section 5.3.). ADOH will not allow land and building acquisition costs in excess of appraised value.

7.2. Builder's Profit, Overhead and General Requirements Limits

The Department will allow the following maximum percentages as Builder or general contractor charges. (Percentage will be applied to the aggregate of the “Total: Site and Demolition,” the “Subtotal: Direct Construction,” and the line item “Community Buildings,” on the Development Budget, Form C of the application.) If an Identity of Interest exists between the Developer and the Builder, the Builder’s Profit will be allowed at a lower percentage (see chart below.)

Builder’s Profit, Overhead* and General Requirements**	Percent of Costs				
	1-15	16-30	31-45	46-60	61+
Project size in Units	1-15	16-30	31-45	46-60	61+
<i>Builder’s Profit (with Identity of Interest), or</i>	2	2	2	2	2
Builder’s Profit	6	5.75	5.5	5.25	5
Builder’s Overhead*	3	2.75	2.5	2.25	2
General Requirements**	6	5.75	5.5	5.25	5
Total Maximum Percentage	15	14.25	13.5	12.75	12

* Builder’s overhead includes a percentage for main office expenses for the job.

** General requirements include Project related site costs such as temporary fencing, utilities to site during construction, job site supervisor, job site office, etc.

7.3. Construction Financing Cost

ADOH, in its sole discretion, may lower the cost included in this category based on the reasonableness of the construction lender’s Letter of Interest or Intent. ADOH will analyze: (i) if the interest rate is comparable to the market; (ii) the origination and loan fees are equivalent to 2% of the construction loan amount; and (iii) the construction interest will be calculated as follows:

$$\text{Construction Loan Amount} \times \frac{\text{Annual Interest Rate}}{12} = \text{Monthly Interest}$$

$$\text{Monthly Interest} \times \text{Months of Construction plus Stabilization} = \text{Interest} \times 50\% \text{ Average Outstanding Balance} = \text{Construction Interest Amount.}$$

7.4. Permanent Financing Cost

ADOH, in its sole discretion, may lower the cost included in this category based on the reasonableness of permanent lender’s Commitment Letter. ADOH will analyze: (i) if the interest rate is comparable to the market, and (ii) the origination and loan fees are equivalent to 2% of the permanent loan amount.

7.5. Rent-up and Operating Reserves

A sum equal to six months’ debt service, operating expense, and replacement reserve payments is required.

7.6. Cost Attributed to Market Rate Units

Market rate Units can be built at a higher cost than the Low-Income Units in the building. However, if the market rate Units are above the average quality standard of the Low-Income Units in the same building, then, unless an election is made pursuant to IRC Section 42(d)(3)(B), the eligible basis of such building shall be reduced by an amount equal to the portion of the adjusted basis of the building which is attributable to such market rate Units.

Pursuant to IRC Section 42(d)(3)(B) an Applicant may elect to exclude from eligible basis only the excess costs of the market rate Unit rather than the entire cost of such Unit. An Applicant is only eligible to make this election for a market rate Unit if the “excess cost” of such market rate Unit is not greater than 15% of the amount which would have been the cost of such Unit had it been built at the average per square foot cost of Low-Income Units in the building. A market rate Unit’s “excess cost” is the excess of the cost of such Unit over the amount that would have been the cost of the Unit at the average square foot cost of Low-Income Units in the building.

7.7. Other Features

- (1) Adaptable Units for the physically disabled are required in all ground floor Units.
- (2) Swimming pools should be entered in the Development Budget under Cost Category II, “Site and Demolition,” on the line item “Site work, landscaping, fencing, and swimming pool.”
- (3) The cost of elevators should be entered in the Development Budget under Cost Category III, “Direct Construction Costs,” on the line item “Elevators.”
- (4) Community and recreational buildings, including a management office, laundry room, and maintenance storage, limited as described in Exhibit D, should be entered in the Development Budget on the line item “Community Buildings” following the “Subtotal: Direct Construction Costs.”
- (5) Enter cost in the Development Budget of Interior hallways, if they are required (e.g., in an elderly or physically handicapped Project), on the line item “Interior Hallways” following the “Subtotal: Direct Construction Costs.”
- (6) The cost of appliances, including disposal, dishwasher, range/oven, refrigerator, and kitchen exhaust hood, must be entered in the Development Budget on the line item “Appliances Per Allowance” following the “Subtotal: Direct Construction.”

7.8. Development Cost Standards

(A) In order to qualify for Tax Credits on rehabilitation expenditures, the rehabilitation expenditures must be equal to the greater of: (a) 10% of the unadjusted basis of the building; or (b) \$5,000 for each Low-Income Unit in the building. Only rehabilitation expenditures on the Low-Income Units or on common areas that substantially benefit the Low-Income Units are counted. Rehabilitation expenditures on non Low-Income Units cannot be used to meet this requirement. Nevertheless, in mixed income properties both the low-income and the market rate Units must be rehabilitated to the same standard (at least \$5,000 per Unit).

(B) Upon completion of any Project ADOH will require final cost details and any other documents needed to verify the reasonableness of the costs. All Applicants shall submit to ADOH, as soon as available, an appraisal of the Project (normally prepared for the construction lender). Upon completion of the Project the Applicant shall submit a copy of the permanent lender’s appraisal (or, if there is no permanent lender, an appraisal satisfactory to ADOH). All appraisals shall be prepared pursuant to the guidelines set out in the Financial Institutions Reform Recovery and Enforcement Act. In underwriting a Project ADOH will expect that the total of all permanent sources of funds will not exceed 130% of the market value of a Project located in an established market.

7.9. Calculation of Tax Credits

ADOH will analyze and, if necessary, adjust the Project cost in accordance with this QAP. ADOH will analyze and adjust the proposed income, operating expenses and net operating expenses if necessary as hereafter set forth. ADOH will analyze and adjust permanent financing sources as necessary in accordance with this QAP.

7.10. Operating Costs

(A) ADOH will evaluate the Operating Costs proposed in the application for reasonableness based on comparable properties.

(B) ADOH restricts the costs in the operating budget to the costs directly associated with operating the real estate. The Applicant must exclude Supportive Services costs from the operating budget and present them in the application in a separate budget.

(C) The conclusions set forth in the Market Demand Study must support a Project vacancy factor and credit losses (resulting from non-payment of rent). NOTE: This percentage must reflect the current vacancy factor in the PMA, but can be no less than 5%.

(D) ADOH will examine and compare Operating Costs to Historical Operating Statements, and/or ADOH's own database derived from LIHTC properties currently in service. ADOH may lower or increase operating expenses based on available data. ADOH may verify independently the real property taxes to be assessed the Project if the taxes presented by the Applicant vary significantly from the norm.

(E) ADOH will examine operational risk management practices and proposed insurance coverage types, limits, deductibles and related risk strategies implemented by the Applicant. This examination will also include a review of the Applicant's operational staff capacity and stated practices for managing losses including fire and mold claims. Applicants whose risk management strategies demonstrate significant uninsured exposures and/or a lack of training may be asked to provide the rationale and provide plans for continuing operations under loss scenarios. Applicant shall complete and submit Exhibit X.

F) The Applicant must submit a written waiver request for management expense greater than 5% of effective gross income ("EGI"), for Projects of 30 Units or more, and management expense greater than 7% of EGI for Projects less than 30 Units. ADOH will deny any waiver request that fails to offer an acceptable justification.

(G) As part of the application, the Applicant must submit a written certification from the Treasurer's or Assessor's Office of the Local Government and any governmental entity that has taxing authority over the real property upon which the Project is located if the Applicant claims that the Project is exempt from real property taxes (e.g., has a non-profit exemption). If the Applicant fails to submit verification of the property tax exemption the Applicant must include the property taxes in the operating expenses. Applicants proposing housing for priority populations must present two operating budgets in their applications: (1) for the costs of operating the Project, less those increased costs attributable to serving the priority populations, and (2) indicating the increased Operating Costs attributable to serving priority populations.

7.11. Operating Income

ADOH will recognize income only for apartment rents (as restricted) and other real estate-related sources (laundry, vending and parking/garage rentals). ADOH will underwrite ancillary income at no more than

\$20/Unit/month. A higher amount of ancillary income may be utilized for underwriting if there are three (3) years of audited operating statements (including income and expense statements) available justifying a higher amount.

7.12. Permanent Financing Provisions

ADOH will expect the Applicant to maximize its lending sources by paying at least the maximum mortgage payment described hereafter. The maximum mortgage payment on the Primary Permanent Funding (see Chapter 9, “Definitions”) on an annual basis will be the quotient obtained by dividing the net operating income by a maximum of 1.30 (130%) for Projects with less than 50 Units and a maximum of 1.20 (120%) for Projects of 50 Units or more as modified by the debt service coverage and loan to value ratios established by the lender in the Letter of Interest or Intent. (See also Section 2.6. B(15), “Financial Ability to Proceed,” for discussion of coverage ratios less than 1.00). ADOH will adjust Tax Credits if necessary to assume financing requiring maximum mortgage payments or such other maximum mortgage payment as is approved by ADOH. ADOH will take other mortgage terms (e.g., interest rate and amortization period) from the lender’s Letter of Interest or Commitment Letter. ADOH will accept second mortgage(s)/lien(s) as long as the first mortgage meets the maximum guidelines as indicated above. ADOH will accept secondary mortgage/liens as long as the debt service coverage ratio does not fall below 1.05 (105%). This minimum debt service coverage ratio, however, does not apply to cash flow notes.

ADOH will impute an amount of Primary Permanent Funding at the prevailing interest rate and term, using standard underwriting criteria, if a Project is proposed that is funded 100% with equity, in order to perform the Equity Gap Analysis (see Section 7.16. below).

7.13. Funding Gaps

An Applicant should not submit an application with an unfilled funding gap. ADOH may reject any application with unfilled funding gaps. ADOH may, but is not required to, give written notice to Applicants with applications containing unfilled funding gaps, whether discovered as originally proposed or from the underwriting process, and may require the Applicant to submit proof of additional sources to fill the funding gap within 10 business days from the date of the written notice from ADOH. If, after notice from ADOH, the Applicant fails to submit adequate proof of additional funding, ADOH will reject the application. ADOH will consider exceptions only in cases where the Applicant has submitted an application for State Housing Funds to ADOH concurrently with the application for Tax Credits.

7.14. State Housing Fund

(A) If ADOH determines that the Project is eligible, ADOH will provide an abbreviated State Housing Fund application to be submitted behind **Tab C** of the LIHTC application. Applicants should consult the current Notice of Funding Availability (“NOFA”) for the State Housing Fund utilizing federal H.O.M.E. funds or State Housing Trust Fund monies for rules of submission, amounts available, etc. ADOH will accept State Housing Fund applications in conjunction with the application in the competitive round. ADOH will also accept abbreviated SHF applications from Projects that determine that additional funds are needed after submission of the initial application as long as the funding gap was not foreseeable when the initial application was submitted. Approval is conditioned upon the availability of funds.

NOTE: Late submittals will receive funding as long as it is available.

(B) The amount of State Housing Funds made available in the NOFA for funding gaps will be awarded in the order that Projects are listed on the Reservation List. Once the available funds are depleted, Applicants will be given 30 calendar days to identify another source to fill the funding gap. If a viable

source is not identified within that timeframe, ADOH will reject the application.

(C) The State Housing Fund is comprised of two sources of money: (1) the H.O.M.E. Investment Partnership Program, and (2) the State Housing Trust Fund. If an Applicant submits an application for State Housing Fund gap financing, the Applicant must assure that the Project will be financially viable using the most restrictive source of State Housing Funds. ADOH will determine whether an Applicant qualifies for State Housing Fund gap financing and, if so, the source of that financing.

(D) Once ADOH has announced a State Housing Fund award amount, the award amount ordinarily will not be increased. Any award (LIHTC or State Housing Fund) may be reduced, however, if:

- (1) The Developer or Owner has brought new funds, governmental or non-governmental, into the Project.
- (2) Project costs have decreased.
- (3) The Syndication Rate has increased while approved costs have not

(E) Because ADOH's funds are regarded as "gap fillers", ADOH will consider other funds introduced into the Project without a corresponding change in approved costs as evidence that ADOH's funds are not needed. ADOH's funds will be reduced accordingly.

7.15. Eligible Basis Analysis

To comply with IRC Section 42, ADOH limits the amount of Tax Credits that it may award to a Project to the amount computed under the "Eligible Basis Analysis." ADOH computes the eligible basis of a Project by multiplying the Project's "qualified basis" by its "applicable percentage." ADOH will use 8.25 and 3.50 for 9% and 4% credits respectively as the "applicable percentage" for underwriting the 2005 applications. See IRC Section 42(a). ADOH will compute the Project's qualified basis by multiplying the Project's "eligible basis" by the "applicable fraction." See IRC Section 42(c). A Project's eligible basis is the Project's tax basis, adjusted as required by IRC Section 42. In addition to the IRC Section 42 adjustments, ADOH limits costs, as discussed in this QAP, in calculating the eligible basis. Certain sources of funds (e.g., State Housing Fund grants of HOME program moneys) must be subtracted from a Project's eligible basis before ADOH may calculate Tax Credits. In cases where the Applicant has locked in the applicable percentage of the month of Carryover, ADOH will use the locked-in applicable percentage rather than the nominal percentage in any interim underwriting.

7.16. Equity GAP Analysis

In addition to the limitation regarding eligible basis as discussed above, ADOH limits the total amount of Tax Credits that it may award to a Project to the amount computed under the "Equity Gap Analysis." The "Equity GAP Analysis" is an essential aspect of the underwriting process, performed: (1) at application, (2) Carryover Allocation and (3) at Placed in Service. So that Projects are not awarded credits in excess of the amount necessary to make the Project feasible, ADOH will calculate the "Equity Gap Analysis" for a Project by dividing the Project "Equity Gap" by the Project "Syndication Rate," by the Investor Ownership percentage, and by 10 years. A Project's "Equity Gap" is defined as the amount by which projected development funds of the Project exceed projected available funds to the Developer for development of the Project, after ADOH has adjusted uses and sources per the underwriting guidelines described above. The Syndication Rate for a particular Project is a ratio that reflects the price to the Project for one dollar of Tax Credits awarded to the Project (e.g., a Syndication Rate of .76 means that, for every dollar of Tax Credits awarded to the Project, the Project will realize \$.76). The Project's projected sources of funds for purposes of the Equity Gap Analysis consist of permanent conventional

financing requiring the maximum mortgage payment as defined above in Section 7.12. “Permanent Financing Provisions,” and any other loans or grants for which the Project has received a Commitment Letter or Award Letter. ADOH uses a Syndication Rate of the greater of .75 or the Syndication Rate set forth in the application. ADOH will make exceptions to this rule only if the investors have fully and satisfactorily justified a lower Syndication Rate in a letter to ADOH. At ADOH’s final underwriting, ADOH will apply the actual Syndication Rate in the Equity Gap Analysis to determine the actual amount of Tax Credits that it will award.

7.17. Layering

ADOH routinely takes into account all public subsidies in its Equity Gap Analysis. In addition, Federal regulations prohibit the layering, or excessive use, of Federal Subsidy for any Project or activity. ADOH will evaluate layering issues on a case-by-case basis and take into account all federal and public subsidies. Applicants should address concerns regarding layering before submitting an application. Applicants are required to disclose all sources of funding requested or received for a Project in the application. ADOH will coordinate with other public funding agencies that by regulation or practice undertake layering reviews of Projects proposed to be funded with Tax Credits. The Applicant’s analysis should include the following:

(1) To the degree additional federal resources proportionately increase the volume of clients or Units assisted, layering is generally not an issue because federal investment per Unit or client is not increased.

(2) To the degree additional federal resources offer no corresponding increase in the volume of clients or Units assisted, layering becomes an issue.

(3) Applications for both Tax Credits and ADOH’s State Housing Fund will be subjected to joint underwriting by all programs involved. ADOH will award Tax Credits only if adequate funding is also available from the State Housing Fund to fill any funding gap. (See the current Notice of Funding Availability for the State Housing Fund for amounts available and funding procedures.) Applications for State Housing Funds must be submitted concurrently with the application for Tax Credits. (See QAP Section 7.14.)

8. COMPLIANCE MONITORING

8.1. Project Compliance Monitoring

ADOH is required to monitor and inspect Projects for compliance with IRC Section 42, Treasury Regulation 1.42-5, the requirements (set-asides, income restrictions, rent skewing, affordability period, amenities and services, etc.) elected in the application and agreed upon in the Extended Use Agreement, and upon which ADOH based its award of Tax Credits.

The IRC also requires that ADOH publish and institute monitoring procedures as part of the approved QAP. This compliance monitoring procedure applies to **all** Projects for which Tax Credits are allowable. Accordingly, ADOH must monitor all Projects allocated Tax Credits since January 1, 1987.

ADOH has prepared a Low-Income Housing Tax Credit Program Compliance Manual for all Program participants. The manual outlines ADOH’s compliance monitoring procedures and reporting requirements. The manual includes samples of all annual reports, certifications, etc. Twice-annual training is offered by ADOH on the **Compliance Manual** and Owners’/managers’ compliance responsibilities.

The Code also allows ADOH to collect fees from Owners to cover the cost of administering the compliance-monitoring program. Monitoring fees are set forth in Section 6.10 above.

8.2. Compliance Monitoring Procedure

The Owner of a qualified LIHTC Project for which Tax Credits are allowable is required to comply with the following:

- A. Record keeping. The Owner must maintain accurate records for each building in the low-income housing Project. These records must include:
 - (1) The total number of Residential Rental Units in the building, including the number of bedrooms and the square footage of each Residential Rental Unit.
 - (2) The total number of Low-Income Units in the building.
 - (3) The total number of occupants in each Low-Income Unit.
 - (4) The rent charged on each Residential Rental Unit in the building, including any utility allowance.
 - (5) The Low-Income Unit vacancies in the building.
 - (6) The number and household eligibility criteria for all special set-aside Units in the building.
 - (7) The rentals of the next available Units in each building including when and to whom rented.
 - (8) The character and use of the non-residential portion of the building that was included in the building's eligible basis under the Code (i.e., facilities that are available on a comparable basis to all residents and for which no separate fee is charged for use of the facilities, or facilities reasonably required by the Project).
 - (9) Documentation regarding the eligible and qualified basis of each building as of the end of the first year of the Tax Credit period.
 - (10) For each low-income household:
 - (i) Completed rental application, including the tenants' certification of assets.
 - (ii) Tenant income certification form, including all required signatures.
 - (iii) Documentation supporting each household's income certification (third-party verifications, asset certification, asset documentation and verification if more than \$5,000 in value).
 - (iv) Documentation of student status.
 - (11) Current-year utility allowance schedule.
- B. Record Retention. Owners are required to keep all records for each building for a minimum of six years after the due date (with extensions) for filing the federal income tax return for that year. The Owner

must retain the records for the first year of the credit period for at least six years beyond the due date (with extensions) for filing the federal income tax return for the last year of the compliance period of the building.

C. Certification. The Owner must certify the following, under penalty of perjury, at least annually through the end of the compliance period:

- (1) That the Project complied with the requirements for Special Set-Asides on which the Allocation was based (e.g., 20%, 30%, 40%, 50% AMGI), as applicable.
- (2) At least 20% of the Residential Rental Units in the Project are both rent restricted and occupied by individuals whose income is 50 percent or less of the AMGI.
- (3) At least 40% of the Residential Rental Units in the Project are both rent restricted and occupied by individuals whose income is 60 percent or less of the AMGI.
- (4) That the Owner/agent has received an annual **Tenant Income Certification** (commonly called the "TIC") form from each low-income resident and verifying documentation to support that certification.
- (5) That the entire Project/building was occupied by LIHTC residents and the Internal Revenue Service has or has not provided a waiver for the annual recertification of resident income.
- (6) That each Low-Income Unit was rent restricted as defined in the Code.
- (7) That all Units in the Project are for use by the general public and are not used on transient basis.
- (8) That each building in the Project was suitable for occupancy taking into account local health, safety, building codes, and HUD's inspection protocol under 24 CFR 5.703.
- (9) That all resident facilities included in the eligible basis of any building in the Project were provided on a comparable basis without a separate fee to all residents in the Project.
- (10) That there was no change in the applicable fraction of any building in the Project (or, if there was a change, a description of the change). (Applicable fraction is defined as the percentage of qualified Low-Income Units in a building or the percentage of Tax Credit floor space to rentable floor space in a building, whichever is less.)
- (11) That there has been no change in any building's eligible basis under the Code (or that there has been a change, with an explanation of the change).
- (12) That a **Declaration of Affirmative Land Use and Restrictive Covenants Agreement** as described in the Code is in effect for Projects receiving Allocations on or after January 1, 1990.
- (13) That the Project complied with the requirements of all federal or state housing programs (e.g., RD assistance, HOME, Section 8, tax-exempt financing), as applicable.
- (14) That, if the Owner received its Allocation set-aside for Projects involving "qualified non-profit organizations," the non-profit entity materially participated in the operation of the development within the meaning of IRC Section 469(h).
- (15) That if a Low-Income Unit in the Project becomes vacant during the year, reasonable attempts are made to rent that Unit or the next available Unit of comparable or smaller size to residents having

a qualifying income before any Units in the Project are rented to residents not having a qualifying income.

(16) That if the income of the residents of a Low-Income Unit increases above 140% of the limit allowed in the Code, the next available Unit of comparable or smaller size will be rented to residents having a qualifying income.

(17) For buildings with four Units or less, whether any of the Units in the building were occupied by the Owner or a Person related to the Owner for the preceding year.

(18) Whether, for the preceding year, the Project was the recipient of a federal grant or other federal subsidy that would cause a reduction in eligible basis.

(19) That the state or Local Government Unit responsible for making building code inspections did not issue a report of a violation for the Project for the preceding 12 month period.

(20) That the Owner has not refused to lease a Unit to an Applicant due to the Applicant holding a HUD Section 8 voucher or certificate.

(21) That the Project has received no finding of discrimination under the Fair Housing Act (an adverse final decision by HUD, an adverse final decision by a substantially equivalent state or local fair housing agency, or an adverse judgment from a Federal court).

D. Reviews and Inspections. Before ADOH issues the IRS Form 8609 or the end of the second calendar year following the year the last building in a Project is Placed in Service, which ever is first, ADOH will conduct on-site inspections of all new buildings in the Project and, for at least 20% of the Project's Low-Income Units, ADOH will inspect the Units and review the low-income certifications, the documentation supporting the certifications, and the rent records for the tenants in those Units.

ADOH will conduct on-site inspections of all buildings in each low-income housing Project at least once every three years, beginning after the Placed in Service date. For at least 20% of the Project's Low-Income Units selected by ADOH, ADOH will inspect the Units (including all vacant Units) and review the low-income certifications, the documentation supporting such certifications, and the rent record.

ADOH will follow HUD's inspection protocol under 24 CFR § 5.703 in conducting physical inspections. ADOH will select Units for physical inspection and review files only at the time of the on-site visit.

E. Liability. The Owner is responsible for compliance. ADOH is not liable for an Owner's noncompliance.

F. Correction of Non-Compliance Condition. ADOH will provide written notice of noncompliance to the Owner if:

(1) ADOH has not received the Annual Certification Report with attachments by the due date.

(2) ADOH finds that the Project is out of compliance with any of the provisions of IRC Section 42.

The Owner will have 30 calendar days from the date of notice of noncompliance to provide any missing information for the Annual Certification Report. The Owner will have 60 calendar days from the date of notice of noncompliance to correct issues. ADOH may grant an extension of up to 120 calendar days if the Owner demonstrates good cause for the extension to the satisfaction of ADOH.

ADOH is required to file IRS Form 8823, "Low- Income Housing Credit Agencies Report of Noncompliance," with the IRS within 45 calendar days of the end of the allowable correction period. ADOH must report all noncompliance issues whether corrected or not. ADOH will explain the nature of the noncompliance or failure to certify and state whether the noncompliance has been corrected. The IRS, not ADOH, will make any determinations as to the applicability of recapture penalties.

ADOH must perform inspections of the Project and perform on-site audits of the resident certification forms and supporting documentation throughout the first 15 years of the compliance period and any agreed-upon extended compliance period. ADOH will notify the Owner in writing of the scheduling of any such inspection or audit.

9. DEFINITIONS

The following definitions shall apply to both the QAP and QAP application for the Year 2005 Program

"10% Test" refers to the requirement of IRC Section 42(h)(1)(E)(ii) that 10% of the reasonably expected basis in the Project (as of the close of the second calendar year) have been incurred before the end of the year in which the Allocation is made and the Project must be Placed in Service no later than the second calendar year following the year of the Allocation..

"ADOH" means the Arizona Department of Housing, which is the housing credit agency authorized to allocate federal low-income housing Tax Credits in the State of Arizona pursuant to A.R.S. Section 35-728(B).

"Administration Fee" means \$1,000 fee due from the Applicant in the event the Applicant requests an interim underwriting or ADOH requires an additional underwriting due to, among other things, a Material Change.

"Affiliate" means any Person, who directly or indirectly, owns or controls another Person by having any family relationship, ownership interest or a Controlling Interest in that Person.

"Allocation" means the award of Tax Credits by ADOH to the Owner of an LIHTC Project. The Allocation is set forth in a binding agreement between ADOH and the Owner.

"AMGI" means Area Median Gross Income. The measure of household income, adjusted for family size, used by the IRS as a reference in establishing income levels for the LIHTC Program (e.g., "60 percent of AMGI," "50 percent of AMGI") and as the base in calculations that yield maximum rents by number of bedrooms. See the "Imputed Incomes/Allowable Rents" tables appended to this QAP at Exhibit H.

"Applicant" means an existing legal entity submitting an application for LIHTC for a Project pursuant to the Allocation Plan.

"Application Year" means the calendar year 2005.

"Approved Building Plans" means the final construction plans/documents that have been approved by the local governing body that will be utilized for the construction of the Project.

"A.R.S." means the Arizona Revised Statutes, as amended from time to time.

"Award Letter" means a letter from a governmental or quasi-governmental agency, e.g., the Federal Home Loan Bank, stating that funds in a specific amount are awarded or are to be awarded to the Project in a specific time frame.

“Builder” means the general contractor that is a member of the Project’s Development Team.

“Capital Needs Assessment (“CNA”) means the assessment as set forth in Section 2.6(B)(31).

“Carryover Allocation” means an Allocation made to the Project if the Project will not be Placed in Service by close of the calendar year of the Allocation.

“Carryover Allocation Fee” means an additional fee of \$250 per day if the information required under section 2.12 of this QAP is submitted after December 1 of the Application Year.

“Census County Divisions” means divisions within counties delineated by the U.S. Census Bureau. For example, the two metropolitan counties in Arizona comprise the following “Census County Divisions.” Maricopa: the divisions of Buckeye, Chandler, Deer Valley, Gila Bend, Phoenix, St. Johns, Salt River, Tonto, and Wickenburg. Pima: the divisions of Ajo, Arivaca, Marana, Papago, and Tucson. Because some of these divisions are under and some over 50,000 people, and because parts of incorporated communities often lie in more than one division, please call ADOH for clarification.

“Census Designated Place (CDP)” means a statistical entity, defined for each decennial census according to Census Bureau guidelines, comprising a densely settled concentration of population that is not within an incorporated place, but is locally identified by a name. CDPs are delineated cooperatively by state and local officials and the Census Bureau, following Census Bureau guidelines. Beginning with Census 2000 there are no size limits.

“Co-Developer” means one of two or more Developers of the same Project.

“Code” and “IRC” mean the Internal Revenue Code.

“Controlling Interest” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the means of ownership, position, contract, or otherwise.

“Commitment Letter” means a written commitment from a lender or other provider of funds, representing a commitment to provide financing and stating the amount, interest rate, fees, term of the loan, debt service coverage, security, and repayment terms, subject only to reasonable, commercially-acceptable contingencies.

“Community-Based Non-Profit” means an organization qualified under IRC Section 501(c)(3) or (4), that has as one of its approved exempt purposes the provision of affordable housing, and its membership is drawn from and representative of the community it serves.

“Community Services Facility” means community room, clubhouse, recreation center or the like. Lobbies and laundry facilities shall not be considered within the scope of this definition.

“Consultant” means an advisor to the Development Team or to any member of the Development Team.

“Council of Governments Regions” means one of the four rural Councils of Governments in Arizona serving regional planning districts. The four rural councils and the districts they serve are: Northern Arizona Council of Governments (**NACOG**), serving the Region 3 Counties of Apache, Coconino, Navajo and Yavapai Counties; Western Arizona Council of Governments (**WACOG**), serving the Counties of LaPaz, Mohave and Yuma in Region 4; Central Arizona Association of Governments (**CAAG**), serving Region 5: the Counties of Gila and Pinal; and South Eastern Arizona Governments Organization (**SEAGO**), serving Region 6, the counties of Cochise, Graham, Greenlee and Santa Cruz.

“Deadline Date” means Tuesday, March 15, 2005 on or before 5:00 p.m. M.T.

“Deferred Developer Fee” means a certain sum of money owed to the Developer and evidenced by a promissory note, partnership agreement, or other written agreement acceptable to ADOH, such fee to be repaid subject to the applicable Project’s cash flow after payment of operating expenses of the Project and after payment of debt service for all superior liens.

“Determination of Qualification” means a letter issued by ADOH in accordance with IRC Section 42(m), that indicates that the Project, which has utilized tax-exempt financing, qualifies for an amount of Tax Credits and is in compliance at the time of the letter with all rules established by this QAP.

Determination of Qualification Fee” means the fee payable after ADOH determination that an application represents a feasible and viable Project with a likelihood of completion and it is payable prior to the issuance of a Determination of Qualification or Reservation. (See section 6.2.)

“Developer” means any legal entity or Person, which will provide or arrange for design, financing, or construction services in connection with a Project.

“Development Team” means the entities and professionals assembled to develop the Project, typically comprising the Developer(s), General Partner, Contractor, Management Company, Tax Attorney, Certified Public Accountant, and all other Project Consultants.

“Employee Unit” means a Unit set aside by Project management as a Residential Rental Unit for a manager, or a maintenance person, and/or a security officer (see Arizona Department of Housing LIHTC Compliance Manual, Section 3.2.1.). ADOH will consider Residential Rental Units as Low-Income Units. Industry standards indicate that one manager’s Unit and one maintenance person’s Unit are needed per one hundred Units. One security officer’s Unit per Project is allowed if management can show that the Unit is reasonably required. Project management, in its discretion, may designate such Units for employees or return them to service as Low-Income Units as circumstances dictate. In accordance with IRS Revenue Ruling 92-61, while these Units are Employee Units they will be included in the eligible basis of the building but will be excluded from both the numerator and the denominator of the applicable fraction. In mixed-income properties, ADOH will assume that any Employee Units are taken from the low-income rather than the market-rate side.

“Equity Gap” means the amount by which projected development funds exceed projected available funds.

“Extended Use Agreement” means a covenant that runs with the land on which the Project is developed, restricting the use of land by the Owner and its successors to the terms and conditions of the Project, as approved by ADOH.

“Extended Use Period” means the total minimum commitment of 30 years by the Owner under the Extended Use Agreement.

“Extended Warranty” means any construction warranty with an initial term of two years or more.

“Federal Subsidy” for the purposes of Tax Credits, Federal Subsidies include federal grants and below market rate federal loans through programs such as those administered by HUD (with some exceptions for CDBG and HOME) and Rural Development, tax-exempt financing and other locally administered low-interest loans or grants from federal sources. Use of these financing sources may require reductions in eligible basis or reductions in a Project’s maximum Applicable Credit Percentage (see IRC Section 42(d)(5)(A) and 42 (i)).

“Final Allocation Fee” means the fee payable upon the issuance of IRS Form 8609 equal to 2% of the Allocation.

“Financial Beneficiary” means a Person who is to receive a financial benefit of: a) 3% or more of total estimated Project cost if total estimated Project cost is \$5 million or less, and b) 3% of the first \$5 million and 1% of any costs over \$5 million if total estimated Project cost is greater than \$5 million. This definition does not include the Owner of the Tax Credit Project unless the Owner is also the Developer or the Builder and meets the above financial requirements.

“Historic Preservation Project” means: (i) a structure individually listed in the National Register of Historic Places, or; (ii) a structure certified by the National Parks Service as contributing to a Register District. A Register District is a designated area listed in the National Register, or listed under State or Local Statute as substantially meeting the requirements for listing of districts in the National Register.

“HOPE VI” means a grant provided by HUD that is used to revitalize aging public housing.

“HOPE VI Proposal” means a Project located within a geographic area or on a parcel of land indicated in the HOPE VI grant application or award.

“HUD” means the United States Department of Housing and Urban Development.

“Identify of Interest” means any financial or ownership interest, direct or indirect, between Developer and another Person.

“Land Control” means Applicant’s evidence of ownership or control over the land required for the Project in the form of: (i) a binding Commitment Letter from a governmental entity to transfer land to Applicant; (ii) a recorded deed with Applicant as grantee, (iii) a long term lease with Applicant as grantee or (iv) a lease option or fully executed purchase option agreement between Applicant and Owner of property as recorded in jurisdiction of property.

“LIHTC” means the Low-Income Housing Tax Credit program, a program of the Internal Revenue Service that provides federal income Tax Credits to Owners of qualifying residential rental Projects.

“Letter of Interest or Intent” means the documentation addressed to the Applicant/Developer of an interest or intent to provide funding, setting forth the writer’s intention to negotiate the financing and stating the amount, interest rate, security, repayment terms and including the minimum debt service coverage ratio and loan-to-value ratio used by the lender to size the financing, as applicable. If the sole Developer of the Project is a non-profit organization, the Letter of Interest or Intent from the investment syndicator must state that the non-profit holds the right of first refusal to acquire the Project following the fifteen-year compliance period. Such letters or documents may be subject to reasonable, commercially acceptable contingencies, as determined by ADOH in its sole discretion.

“Local Government” means the governing body of the City, Town, County or Tribal government having jurisdiction over the real property upon which the Project will be located.

“Low-Income Unit” means any Unit in a Project if the Unit is rent restricted (as defined in IRC Section 42 (g)(2)) and the individuals occupying such Unit meet the income limitation applicable under IRC Section 42 (g)(2) for the Project.

“Market Demand Study” means a third party report that outlines the overall market demand for a Project within a defined market area and identifies, with significant detail, the current supply of similar Units, demographics, and economics contained within the market area.

“Material Changes” means changes from information previously submitted to ADOH in the substance of the Project, including but not limited to substantial changes in the composition of the Owner, in the Project itself, in the terms or sources of financing, or in the construction lender, permanent lender, and syndicator (if the credit pricing drops.)

“Maximum Tax Credit Reservation” means a maximum Reservation for any single Project or Scattered Site Project that is not utilizing HOPE VI is \$850,000. One Owner, Developer, Co-Developer or Affiliate of the Developer or Co-Developer with multiple Projects cannot exceed a total of \$2.55 million dollars in any Allocation year.

“Mixed-Finance Projects” means Low-income housing Projects developed partly with funding from the HUD Low Rent Public Housing Program and partly from other public sources.

“Operating Costs” means the fixed and variable expenses of operating the Project, including but not limited to taxes, insurance, utilities, management, and replacement reserves, but excluding debt service.

“Owner” means the legal entity which will ultimately own the Project and to which Tax Credits will be allocated.

“Person” means an individual, partnership, corporation, trust or other entity.

“Physically Disabled Persons” means people who have physical impairments that substantially limit one or more major life activities or have a record of such impairment.

“Placed in Service” means: (i) for a new or existing building used as residential rental property, the date on which the building is ready and available for its specifically assigned function, i.e., the date on which the first Unit in the building is certified as being suitable for occupancy in accordance with state or local law; and (ii) rehabilitation expenditures that are treated as a separate new building are Placed in Service at the close of any 24-month period over which the expenditures are aggregated.

“Primary Permanent Funding” means the loan secured by the first lien on the Project plus any additional notes secured by subordinate liens on the Project, which represent additional debt service requirements intended to be paid from sale proceeds or operating income generated by the Project.

“Project” means any Project for residential rental property if the Project meets the requirement of subparagraph (A) or (B) whichever is elected by the taxpayer:

(A) 20-50 Test - The Project meets the requirements of this subparagraph if 20 percent or more of the residential Units in such Project are both rent-restricted and occupied by individuals whose income is 50 percent or less of area median gross income.

(B) 40-60 Test - The Project meets the requirements of this subparagraph if 40 percent or more of the residential Units in such Project are both rent-restricted and occupied by individuals whose income is 60 percent or less of area median gross income.

Any election under this paragraph, once made, is irrevocable. For purposes of this paragraph, any property will not be treated as failing to be residential rental property merely because part of the building in which such property is located is used for purposes other than residential rental purposes. Scattered Sites may be considered to be one Project if the Scattered Sites meet the above definition and the requirements in the Scattered Sites definition in this Section.

“Redevelopment Area” means an area determined by official action of the governing body of the municipality or county to be either:

An area in which a majority of the structures are residential or an area in which there is a predominance of buildings or improvements, whether residential, and which, by reason of dilapidation, deterioration, age or obsolescence, inadequate provision for ventilation, light, air, sanitation, open spaces, high density of population and overcrowding or the existence of conditions which endangers life or property by fire and other causes, or any combination of these factors, is conducive to ill health, transmission of disease, infant mortality, juvenile delinquency or crime, and is detrimental to the public health, safety, morals or welfare.

An area that because of the predominance of defective or inadequate street layout in relation to size, adequacy, accessibility or usefulness, unsanitary or unsafe conditions, deterioration of the site or other improvements, diversity of ownership, tax or special assessment delinquency exceeding the fair value of the land, defective or unusual conditions of title, improper subdivision or obsolete platting or the existence of conditions which endanger life or property by fire and other causes, or any combination of these factors, substantially impairs or arrests the sound growth of the municipality, retards the provision of housing accommodations or constitutes an economic or social liability and is a menace to the public, health, safety, morals or welfare in its present condition and use.

“Reservation” means a non-binding, written statement issued by ADOH to the Applicant after the application round indicating that ADOH has reserved for the Project a specific amount of Tax Credits which shall receive an Allocation upon the Project’s satisfaction of certain conditions.

“Reservation Fee” means the fee to process an application to the point of a Determination which is equal to 8% Tax Credits Requested, for For-Profit and 6% for Non- profit Developers.

“Residential Floor Area” means the living area per Unit measured from the interior wall surfaces of the Unit’s perimeter walls.

“Residential Rental Unit” means an area legally licensed or permitted for use as a living space containing a sleeping area, bathing and sanitation facilities, and cooking facilities equipped with a cooking range, refrigerator, and sink, all of which are separate and distinct from other Residential Rental Units. *Federal Tax Regulations (FTR) 1.103-8(a) 8(i)*.

“Satisfactory Progress” means that Applicants who have previously received a Determination of Qualification, Reservation or Allocation in Arizona or any other state have met the benchmarks imposed by Arizona or any other state for such prior Projects.

“Scattered Sites” means Projects that meet the following criteria:

1. consist of no more than six (6) non-contiguous parcels within a 15-mile radius of each other;
2. consist of no more than 200 Units;
3. all buildings in the Project must be under the ownership of one entity;
4. all Units in the scattered site application must be managed by one entity;
5. all buildings in the Project must be developed under one common plan of financing and considered as a single Project by all funding sources;
6. to receive the 130% increase in basis allowed under IRC Section 42, all parcels making up the

Project must be located within a Qualified Census Tract or Difficult Development Area;

7. the scattered sites must be appraised as a single proposed development; and
8. each parcel within the proposed Project must meet all applicable threshold and scoring criteria.

”Senior Project” means “housing for older persons” as defined in Section 807(b)(2) of the Fair Housing Act, 42 U.S.C. § 3607, as it may be amended from time to time.

“Special Needs Populations” ADOH includes the homeless, the seriously mentally ill, the physically disabled, individuals infected with the human immune-deficiency virus or other populations with specialized housing needs. Other populations with specialized housing needs may include:

- Seriously Emotionally Disturbed, i.e., persons between birth and age 18 who currently or at any time during the past year have had a diagnosable mental, behavioral, or emotional disorder that resulted in a functional impairment which substantially interferes with or limits the person’s role or functioning in family, school, or community activities. Seriously emotionally disturbed persons are to be certified by a referral agency recognized by ADOH.
- Developmentally Disabled Persons suffering from a severe, chronic condition attributable to a physical or mental impairment manifesting itself before the age of 22 and likely to continue indefinitely. Developmentally Disabled Persons are to be certified by a referral agency recognized by ADOH.
- Victims of domestic violence as certified by referral agency recognized by ADOH.
- Individuals suffering from chronic substance abuse, as certified by a referral agency recognized by ADOH.

“State Annual Credit Authority” means an amount of Tax Credits allocated to the State based on the population of the State and multiplied by \$1.80 per resident.

“State Housing Fund” means a combination of federal and state dollars administered by ADOH. Available federal dollars come from the HOME Investment Partnership Program and state dollars are made available through the Arizona Housing Trust Fund.

“Supportive Housing” means affordable permanent independent rental housing for persons who are homeless or have disabilities. These populations are limited, however, to the following groups: homeless; Seriously Mentally Ill; Seriously Emotionally Disturbed; physically disabled; Developmentally Disabled; victims of AIDS/HIV; victims of domestic violence; and victims of chronic substance abuse (see Section 9 above for more complete definitions of these groups). Supportive Services are provided to residents of Supportive Housing on an as-needed basis for as long as they are needed, with the purpose of helping residents achieve maximum possible self-sufficiency and maintain their permanent housing. Supportive Services may be provided directly by the Owner or through coordination with existing service agencies and may be delivered through a combination of both on- and off-site service delivery mechanisms, with the provision that an on-site service coordination capacity must be maintained.

“Supportive Services” means services such as attendants, housekeeping, assistance with activities of daily living, transportation, and training provided by the Owner to help residents maintain their lifestyle and achieve self-sufficiency.

“Syndication Rate” means a ratio that reflects the price to the Project for \$1.00 of Tax Credits awarded.

“Ten Year Rule” means the following:

(A) In order for an existing building to qualify as part of a Tax Credit Project, the Applicant must acquire the building from an unrelated Person who:

- (1) Has held the building for at least ten years at time of the application, and
- (2) Did not make substantial improvements during that period that are subject to 60-month amortization under IRC Section 197(k) or the Tax Reform Act of 1986.

(B) The 10 year rule may be waived by the United States Secretary of the Treasury in the case of distressed sales of certain federally-assisted Projects, prepayment of mortgages that result in buildings being converted to market use, buildings acquired from failed depository institutions, and single family residences used for no other purpose than a principal residence by the Owner.

(C) The legal opinion provided by counsel for the Applicant must provide a detailed analysis of the Placed in Service dates and acquisition dates for Projects submitting an application in conjunction with the 10 Year acquisition credits.

(D) An appraisal that separates the appraised value of the land from the appraised value of the building must be submitted with the application when 10 Year Acquisition Credits will be utilized.

“Ten Percent Test Late Fee” means the fee due in the amount of \$3,500 if a Developer requests an extension to submit required documents to receive a Carryover Allocation in accordance with Section 2.12.

“Unit” means any accommodation containing separate and complete facilities for living, sleeping, eating, cooking, and sanitation (e.g. a residential dwelling, consisting of one apartment, one single family home, one half of a duplex, etc.). Such accommodations may be served by centrally located equipment such as air conditioning or heating.

“Water Conservation” means the preservation and careful management of water resources.

“Xeriscape Landscaping”, by definition, is landscaping designed specifically for areas that are susceptible to drought, or for properties where water conservation is practiced.

Exhibit B
Sample Letter of Community Assessment
State of Arizona Low Income Housing Tax Credit Program

Date

Contact
Municipality
Address
City

RE: Project Name

Dear City/Town Manager:

The State of Arizona has received an application for a reservation of tax credits within the corporate limits of the **(Municipality)**. A description of the project is enclosed. As you may know, the Low Income Housing Tax Credit (LIHTC) program offers a developer federal tax credits to induce the development of rental housing for persons and families earning no greater than 60% of the median income. Rental and occupancy restrictions apply for an extended period of time. The project developer is, **(Developer Name)**, the contact person for this project **(Name)**, may be reached at **(Phone Number)**. Please fill out the enclosed letter and return it to the Arizona Department of Housing (address noted on the enclosed letter) by **(Date)** at 5:00 P.M. This will enable the Arizona Department of Housing to incorporate your comments in our assessment of the project. In addition, please attach a letter of comment on the project's market study and any disagreements that you may have with the market study. A copy of the market study is available from the developer.

Should the Arizona Department of Housing not receive the enclosed letter by the stipulated date, it shall deem the community to be not in support of the project and reject the application.

Your review should occur consistent with applicable Fair Housing laws in Arizona. Please consult competent legal advice and/or the Attorney General Fair Housing Division at (602) 542-5025 should you require assistance in this regard. While the State does not require formal action by the local governing body, you may wish to consider this for the project.

Thank you for your assistance and cooperation on this matter. Please contact me at (602) 771-1031 for any further information you may require. Please remember that time is of the essence concerning this issue.

Sincerely,

Randy Archuleta
Rental Development Program Manager

Enclosure

**COMMUNITY ASSESSMENT
Exhibit B**

Date: _____

Arizona Department of Housing
Attn: Rental Development Program Manager
1700 W. Washington, Suite 210
Phoenix, Arizona 85007

Dear Manager:

The _____ of _____ has received your letter notifying us that the proposed development _____ is under consideration by the Arizona Department of Housing for an allocation of Low Income Housing Tax Credits.

I. We have reviewed the aforementioned project and find that:

☐ The proposed acquisition and development of the above referenced project will provide safe and affordable housing that will comply with Fair Housing Laws in Arizona. It is believed that the proposed project is also consistent with the housing policies, strategies, priorities and procedures of this municipality. Accordingly, the application proposed for this development is supported by this municipality.

☐ The proposed acquisition and development of the above referenced project **does not** appear to be consistent with the housing policies, strategies, priorities and procedures of this municipality. Therefore, this municipality **does not** support the proposed development.

II. Market demand study:

☐ We have reviewed the market demand study and/or appraisal for the proposed project, dated _____, and have attached any comments regarding this study.

☐ We have not reviewed the market demand study and/or appraisal.

The undersigned has the authority to bind the _____ with respect to the matters set forth in this letter. Please contact me at _____ for any further information you may need on this matter.

Sincerely,

(Name)

(Title)

(City/Town/County)

Exhibit C

Year 2005 Difficult Development Areas and Qualified Census Tracts

The following locations are considered "Difficult Development Areas" in Arizona (subject to annual revision by the ADOH of Housing and Urban Development (HUD):

Metropolitan Areas: Flagstaff, Yuma.

Counties: Apache, Cochise, Gila, Graham, La Paz, Navajo, and Yavapai

The following are the 2003 "Qualified Census Tract" within Arizona counties (provided by HUD)

Apache County: 9401.00, 9426.00, 9427.00, 9440.00, 9441.00, 9442.00, 9443.00, 9449.00, 9451.00

Cochise County: 6.00, 8.00, 9.00

Coconino County: 8.00, 10.00, 18.00, 9411.00, 9422.00, 9445.00

Gila County: 9402.00, 9404.00

Graham County: 9405.00

Maricopa County: 202.00, 506.03, 608.00, 614.00, 716.00, 822.02, 926.00, 927.04, 927.05, 927.11, 928.00, 929.00, 931.04, 1033.04, 1033.05, 1033.06, 1045.01, 1046.00, 1071.02, 1072.01, 1086.01, 1090.00, 1091.00, 1092.00, 1096.04, 1098.01, 1101.00, 1102.00, 1103.00, 1107.01, 1112.02, 1112.03, 1114.01, 1115.01, 1116.02, 1121.00, 1122.01, 1122.02, 1123.01, 1123.02, 1125.02, 1125.07, 1126.01, 1126.02, 1127.00, 1128.00, 1129.00, 1131.00, 1132.01, 1132.02, 1132.03, 1133.00, 1134.00, 1135.00, 1136.01, 1136.02, 1137.00, 1138.00, 1139.00, 1140.00, 1141.00, 1142.00, 1143.01, 1143.02, 1144.01, 1144.02, 1145.00, 1146.00, 1147.01, 1147.02, 1147.03, 1148.00, 1149.00, 1150.00, 1151.00, 1152.00, 1153.00, 1154.00, 1155.00, 1156.00, 1158.01, 1158.02, 1159.00, 1160.00, 1161.00, 1162.03, 1166.02, 3187.00, 3191.00, 3191.02, 3192.00, 3200.02, 4213.02, 4214.00, 4216.02, 4220.01, 9407.00, 9410.00, 9411.00

Mohave County: 9404.00, 9501.00, 9504.00, 9505.00

Navajo County: 9401.00, 9403.00, 9410.00, 9411.00, 9423.00, 9424.00, 9444.00, 9445.00, 9447.00, 9448.00

Pima County: 1.00, 3.00, 4.00, 5.00, 9.00, 10.00, 13.01, 13.02, 14.00, 15.00, 21.00, 22.00, 23.00, 24.00, 25.03, 26.01, 27.01, 28.01, 28.02, 31.01, 37.01, 37.02, 38.01, 38.02, 39.02, 41.04, 41.11, 43.20, 45.09, 51.00, 9406.00, 9407.00, 9408.00

Pinal County: 4.00, 10.00, 12.00, 15.00, 19.00, 20.00, 9406.00, 9411.00, 9412.00

Santa Cruz County: 9962.00, 9964.02

Exhibit D

Arizona Department of Housing (ADOH) Year 2005 Mandatory Design Guidelines for Multifamily Rental Housing

The following Design Guidelines have been developed to assist architects and developers to understand the factors considered by the Arizona Department of Housing (the “ADOH”) in the evaluation of multifamily rental housing. The ADOH generally yields to the local jurisdiction in all matters pertaining to development and construction standards. Therefore, if a local jurisdiction has published more restrictive standards than those stated below, the standards of the local jurisdiction will apply. The ADOH will expect the finished product to be substantially similar to what was represented in the Application. This representation pertains to building materials, amenities, and equipment. The ADOH must approve any Material Change or it may result in a reduction or recapture of tax credits.

The ADOH values excellence in design because well-designed housing meets the needs of tenants, attracts market renters and promotes community acceptance of housing financed by the ADOH. All projects must meet or exceed each of these standards, as well as the minimum requirements of all applicable building codes and regulations. In addition, projects must meet ADA and Fair Housing Requirements. Exceptions to the standards apply only to rehabilitation projects and can be found in the QAP, Section 7.21, and on page 4 below.

Where the ADOH’s minimum standards are in conflict with HUD or State Housing Fund requirements for the design and construction of manufactured housing, the HUD or State Housing Fund requirements will prevail. For items not covered by the HUD or State Housing Fund requirements, e.g., site drainage and site lighting, the ADOH’s minimum standards will prevail.

GENERAL DESIGN

Provisions must be made for handicapped access in conformance with the requirements of federal and state law including the Fair Housing Act and the Americans with Disabilities Act.

The building design should be appropriate and integrated into the topography and neighborhood.

The density characteristics and building design should conform to those of the surrounding area.

Amenities should reflect the desires of the target market. Amenities should be shown clearly on the plans and should be fully described within the narrative portion of the application package. Laundry facilities and community rooms should be proportioned to the total number of units.

BUILDING CODE STANDARDS

1. All projects financed and built under the program are to meet or exceed the following development standards:
 - Uniform Building Code, Uniform Mechanical Code, Uniform Plumbing Code (1994 Editions), International Building Code
 - National Electrical Code (1993 Edition)
 - 2000 International Energy Conservation Code (IECC)
 - Federal Fair Housing Act (42 U.S.C. § 3601 *et seq.*), *Arizona Fair Housing Act* (A.R.S. § 41-1491 to 41-1491.37), and the HUD Fair Housing Regulations (24 C.F.R. Part 100, Subpart D)
 - Uniform Federal Accessibility Standards (Section 504 of the 1973 Rehabilitation Act) and the Americans with Disabilities Act, as applicable.

INTERIOR DESIGN

All residential dwelling units must meet minimum units size requirements. The square footage measurements below will be for heated square feet only. They are measured finished interior wall to finished interior wall, and do not include exterior wall square footage. Unheated areas such as patios, decks, porches, stoops, or storage rooms cannot be included.

Efficiency	450 net square feet
1 bedroom	650 net square feet
2 bedroom	800 net square feet
3 bedroom	1,050 net square feet
4 bedroom	1,200 net square feet

1. The minimum bedroom size is 120 net square feet.
2. Kitchens must be equipped with pantries or broom closets.
3. Other features which must be provided include:
 - Linen closets outside bathrooms
 - Bulk storage for items like snow tires, suitcases and sport equipment. (This may be located outside each unit.)

LARGE UNIT DESIGN (applicable to units having three or more bedrooms)

The common spaces of units should be proportionately larger as the number of bedrooms increases.

Three-bedroom units must have at least 1.75 baths and four-bedroom units must have 2 full baths.

EXTERIOR DESIGN

Low maintenance exteriors should be planned.

A complete landscape plan, which maximizes existing natural features or otherwise enhances open space, is required. Wherever possible, native plants should be used. Maintenance systems (e.g. sprinkler and irrigation systems) must be installed to maintain landscaping.

“Xeriscape Landscaping”, by definition, is landscaping designed specifically for areas that are susceptible to drought, or for properties where water conservation is practiced.

Trash removal areas must be screened.

Buildings and dwelling units must be individually marked with visible, contrasting identifying devices to minimize the response time for receiving aid by police and/or emergency personnel. The building identifying devices must be well lighted from dusk till dawn.

Single lever deadbolts and eye viewers are required on all entry doors to residential units.

On-Site Playground Areas

Recreational facilities must be provided for different age groups. (For example, sandboxes within sight of units for children under 5, “tot lots” for ages 5 to 12, and a basketball court for ages 12 and older.)

Play areas and playgrounds for children should be located away from high automobile traffic patterns, and situated so that the play area is visible from the maximum number of dwelling units possible for safety.

Designated play areas and playgrounds are considered “common areas”, and must be on an accessible route per accessibility codes.

A bench must be provided at playgrounds to allow a child’s supervisor to sit and rest comfortably. The bench must be anchored permanently, must be on an accessible route, and must be weather resistant. All benches must have a back.

A “warning” sign must be posted to advise residents that children that play at the playground will be doing so at their own risk. The sign must be posted at a visible location, and use contrasting colors for better identification.

Housing for Seniors

Projects that are intended to serve 80% or more elderly individuals (persons that are 55 years of age or older) must consist of single story buildings or multi-level buildings with elevators serving all levels of the building.

REHABILITATION PROJECTS

Applications must propose a scope of work appropriate to the building(s), as reflected in the Physical Needs Assessment, but should not involve unnecessary work. Proposals must address the following elements:

Making “common areas” handicapped accessible.

Improving site and exterior dwelling lighting, landscaping/fencing, and installing finish material that will withstand extended weathering in the project’s location.

Adding porches or other aesthetic features to enhance the exterior quality and interest of the project.

Use energy-efficient related products to replace inferior ones, including insulated windows and doors, and adding additional insulation.

Improving heating and cooling units, plumbing fixtures, water heaters, toilets, sinks, faucets and tub/shower units, especially with use of water conserving equipment and systems.

Improving quality of interior conditions and fixtures, including carpet, vinyl, interior doors, painting, drywall repairs, cabinets, appliances, light fixtures and mini-blinds.

Where possible, upgrading bathrooms and kitchens.

COMMON AREA FACILITIES

On-Site Laundry Facilities

Laundry facilities are required at all developments with twenty or more residential dwelling units.

There must be a minimum of one washer and one dryer per twelve dwelling units if washer/dryer hookups are not available in each dwelling unit. If hookups are available in each dwelling unit, there must be a minimum of one washer and one dryer per twenty dwelling units.

A “folding” table or countertop must be installed.

The laundry room must have a window and adequate entrance lighting, which must be on from dusk to dawn to assist in greater security during evening hours.

Community/Office Space

All special needs and elderly developments must have a community room on site or immediate access to such space on an adjacent property.

All developments consisting of twenty (20) residential dwelling units or more must have a site office of at least 200 square feet (inclusive of handicapped toilet facility) and a maintenance room of at least 100 square feet.

Community Service Facility

A Community Service Facility must be designed to serve primarily individuals whose income is 60 percent or less of AMGI, under Section 42(d)(4)(c)(iii). This requirement will be satisfied if the following conditions are met:

First, the facility must be used to provide services that will improve the quality of life for community residents. Second, the taxpayer must demonstrate that the services provided at the facility will be appropriate and helpful to individuals in the area of the project whose income is 60 percent or less of AMGI. This may, for example, be demonstrated in the market study required to be conducted under section 42(m)(1)(A)(iii), or another similar study. Third, the facility must be located on the same tract of land as one of the buildings that comprise the qualified low-income housing project. Finally, if fees are charged for services provided, they must be affordable to individuals whose income is 60 percent or less of area median income.

The project must be located in either a QCT or DDA area, and services must be provided throughout the compliance period.

Specific Construction Features

The following represent **minimum** design standards to be met by each tax credit project. These minimum requirements (or alternatives of equal or greater quality and durability) will be imposed on every Applicant, regardless of project size, amenities, or geographic location, unless the standards required by a local jurisdiction exceed those established by the ADOH.

The Applicant will be required to certify in the Applicant Affidavit, Release and Oath (see Form C, “Low-Income Housing Tax Credit Application”) that these minimum design features will be complied with in the construction of the project and that, if they are not, credits will be surrendered to the ADOH. The Applicant will also be required to certify full compliance with these standards prior to issuance of IRS Forms 8609.

All construction features in the LIHTC project should conform to goals of attractiveness, utility, efficiency, and long-term durability. All features should be designed for long-term extended use (50-year minimum). A specific goal of the program is to minimize monthly tenant Operating Costs.

The project architect should provide relief on all surfaces by designing varied building heights and rooflines and distinctive window and entry door detail. The architect should vary building orientations along the street as well as building masses, clusters, and colors.

1. Site Work

- Termite treatment is required as part of site work.
- Site planning for drainage. Minimum slopes required for proper drainage are:
 - a. Slopes away from foundations: 5% first 10 feet (6 inches in first 10 feet)
 - b. Slopes on paved areas: can be a minimum of 0.7% for asphalt, 0.5% if a concrete valley gutter is installed; 1% (1/8 inch per foot)
 - c. Exterior grade should be shown a minimum of 6-8 inches below the top of slabs on grade.

2. Foundation and Slabs

- Soils report required by an Arizona Registered Engineer
- Cast in place concrete foundations suited to specific locations (design for local frost depth where applicable), designed by a registered professional.
- Four-inch minimum concrete slab on four inches of ABC aggregate, or as designed by an Arizona Registered Structural Engineer. Concrete slabs, including carports and driveways, should be reinforced if directed by the soils report using the following methods or equivalent:
 - a. 6x6 10/10 WWF wire mesh, centered in the slab vertically, OR
 - b. polypropylene fibers in the concrete mix for slabs (Fibermesh is a typical manufacturer). Application of the product should be in the proportions and according to the recommendations of the manufacturer.

- c. Post-tensioned tendons as designed by an Arizona Registered Structural Engineer following the additional recommendations of a Geotechnical Report of the soil conditions by an Arizona Registered Geotechnical Engineer.

Note: All slabs and foundations must be designed by an Arizona Registered Structural Engineer.

3. Frame and Stucco Construction

- Stucco: three coat cement stucco with metal expansion joints or 3/8" fiber-reinforced stucco on wire lathe, on one-inch foam insulation board.
- Frame: 2x4 or 2x6 wood or metal studs in exterior and party walls, 2x4 in other walls. The choice of 2x4 or 2x6 will be dictated by the methods selected to meet International Energy Conservation Code requirements, sound barrier requirements, and engineer's specifications. Exterior walls should be designed to achieve a U-value of .056. Wood floor framing with 3/4" or 5/8" plywood sheathing and lightweight concrete or equivalent gypsum topping.

4. Roof

- Concrete tile roof or architectural grade shingles with a minimum life of 40 years on one layer 40 lb. felt with wood truss framing, minimum slope 3:12. Flat roofs must have a minimum 3/8"/1' slope.
- In rehab work where existing flat roofs are present properly drained, built-up roofs should be constructed with a minimum of 72# fiberglass cap sheet with mineral surface over three layers of at least 30# felt with the base layer nailed to the plywood decking.
- An Arizona Registered Structural Engineer must design roof trusses.
- Roof Sheathing should be called out on the Roof Framing Plan. Required: minimum 1/2 inch exterior grade plywood or 1/2 inch exterior grade OSB (oriented strand board). All sheathing must be gapped 1/8 inch on the edges and ends with metal clips appropriately installed on the trusses.

5. Electrical

- All standard basic service and lighting must conform to National Electric Code (1993 or later) and local codes. Smoke detectors must be hard-wired.

6. Plumbing

- Copper, CPVC or PEX for domestic water, PVC outside and for sanitary (polybutylene piping is prohibited).
- Durable fixtures. All bathroom sinks and toilets to be porcelain. Enamel finish steel tub with PVC tile or cultured marble surrounds, prefinished wall panels or a one-piece epoxy resin tub/shower unit or four-piece acrylic tub/surround or shower/surround
- Durable toilet accessories; medicine cabinet with mirror.
- Water Conservation devices, e.g., alternative and low-flow toilets, low-volume showerheads, aerator or flow restrictor devices in the faucets, and front-loading or horizontal axis washers

7. Energy Conservation

Project must comply with the 2000 International Energy conservation Code (IECC). Compliance with this code shall be determined in accordance with Sections 101.3.1 and 101.3.2 of the IECC. Construction documentation shall be submitted for review in accordance with Section 104 of the IECC.

- a. Insulation: Insulation must be installed such that there are no gaps, voids, wind intrusion or compression of the insulation. The insulation and the air barrier (e.g. sheetrock) must be continuous and aligned in all cases. Sound insulation is required in party walls.
- b. Minimum HVAC efficiencies
 - AC: 12 SEER
 - Heat Pump: 12 SEER and 7 HSPF
 - Combustion furnace: 80% AFUE

Note: Electric resistance heating can be used only if the Owner documents, utilizing the IECC Systems Analysis (Chapter 4) approach, that the utility costs for the structure are equal to or less than the IECC standards design of like architectural characteristics. The analysis will be completed utilizing a combustion furnace for the standard design with an efficiency value of 80% AFUE.

- c. Air Distribution Systems:
 - All joints in the air distribution system shall be sealed with duct mastic or approved equivalent.

- For duct systems located outside the conditioned space, total duct leakage in CFM, measured at 25 Pascals pressure, shall be less than or equal to 3% of the square footage served by the system (e.g., 1,000 sq. ft. unit x 3% + 30 CFM allowable leakage).
- All ducts located outside the conditional space shall be insulated to a minimum of R-6.
- Airflow to each room will match design airflow calculations to within +/- 10%.

d. Room Pressure

Under normal operating conditions, an air handler cannot create room pressures with a magnitude greater than +/- 3.0 Pascals, with reference to outside, anywhere in the Unit.

e. Indoor Air Quality

- Exhaust hoods above gas ranges must be vented to the outside.
- Unvented combustion appliances (fireplaces, heaters or gas logs) are not allowed.
- A carbon monoxide detector, hardwired, shall be installed in all Units with an attached garage or with any combustion appliance located in the conditioned space.

f. Windows:

At minimum, all windows shall be dual pane.

Inspections of Energy Conversation Features-

Contact Mark McWhirter at (602) 771-1149

Inspections of energy features are to be carried out by AEO or approved agent. The initial inspection will be on the building plans approved by the local governing body and then will be carried out randomly, on approximately 10% of the Units. The Developer must notify AEO of the construction schedule to facilitate inspections that need to be completed at various phases of construction. AEO will document all items that pass inspection and will consult with the Construction Superintendent on items that do not pass.

Inspections will include:

- Building plan review: after the local government body has approved the building plans, one set of construction plans must be submitted to the AEO prior to the beginning of construction.
- Insulation inspection (pre-sheetrock) to verify R-value and that there are no gaps, voids or compression of the insulation.
- Verification of HVAC equipment efficiency.
- Duct testing of completed system (pre-sheetrock) to verify leakage amounts and duct R-values.
- Room airflow on completed Units.
- Room pressures on completed Units.
- Verification that windows are dual pane.
- Verification of carbon monoxide detector installation where required.

8. Doors

- Solid wood, hollow wood when used with exterior-rated glue, fiberglass or insulated metal outside doors with wood or metal frame. Paint grade pre-hung hollow-core interior doors with residential grade finish hardware.

9. Floors

- Carpet, VCT and sheet vinyl.
- Base of painted wood, vinyl, rubber or MDF compressed wood.

10. Walls & Ceilings

- Painted ½" gypboard, moisture resistant at wet areas, type 'X' at areas required by prevailing building code.

11. Appliances

- Range/oven, exhaust hood above range, refrigerator, disposal, dishwasher.

12. Cabinets

- Solid wood or particleboard with durable laminate; durable laminate counter tops.

13. Exterior Stairs, Entrance Landings, and Balconies

- Should be constructed of precast concrete treads on painted steel framing with painted steel handrails or according to a system of equivalent or greater durability and quality.

14. Exterior Fencing.

- Fence the property (masonry preferred) to limit access of non-residents, as appropriate and desired by the affected jurisdiction. Gates are not required unless specified by the local jurisdiction.

15. Exterior Finish

- Select a finish material that will withstand extended weathering in the project location.
 - a. Desert and mountain localities: three-coat cement stucco with metal expansion joints, or 3/8 inch, fiber-reinforced stucco on wire lath, on 1-inch foam insulation.
 - b. Mountain localities at higher elevations; various siding products (fiberboard, mineralboard or vinyl) may be substituted for stucco if warranted by the manufacturer for a minimum of 40 years.

16. Site Lights

- For security purposes, provide adequate site lighting, especially at the rear of the buildings and for walkways, parking, corridors and stairways.

Exhibit E
Sample Legal Opinion

Date:

Rental Development Program Manager
Arizona Department of Housing
1700 West Washington, Suite 210
Phoenix, Arizona 85007

Dear Manager:

This opinion letter is rendered on behalf of _____ in connection with the application of _____ (the "Applicant") for an allocation of low-income housing credits pursuant to Section 42 of the Internal Revenue Code of 1986 as amended (the "Code"), by the Arizona Department of Housing (the "ADOH").

We have reviewed the following:

1. Organizational documents (as applicable, the articles of incorporation, bylaws, operating agreement or partnership agreement) of the Applicant;
2. Proposed or actual organizational documents (as applicable, the articles of incorporation, bylaws, operating agreement or partnership agreement) if available, of the proposed owner and operator ("Owner") of the project located at _____ (the "Project").
3. The ADOH's 2005 Qualified Allocation Plan (the "QAP") and the required form of the Declaration of Affirmative Land Use and Restrictive Covenants Agreement (the "LURA") which is an extended low-income housing commitment agreement with the ADOH which, when recorded, will contain certain restrictive covenants running with the Project as specified in Section 42 (h)(6) of the Code: and
4. Such other documents as necessary to render the opinions set forth below.

As to questions of fact material to our opinion, we have relied upon, and assumed due and continuing compliance with the provisions of the documents, and have relied on certifications, covenants and presentations by the Applicant or Owner furnished to us without undertaking to verify these items by independent investigation. We are not aware of any facts that are inconsistent with these assumptions.

At the time of allocation for low-income housing credits, the Owner is required to enter into the LURA. For the purpose of this opinion we have assumed the execution, delivery, and the recording of the LURA and continuing compliance with the terms of the LURA.

Based upon the foregoing, we are of the opinion, as of this date, that:

1. The Applicant, and Owner if currently organized, are duly organized, validly existing and in good standing under the laws of the State of Arizona. Additionally, the Applicant and the Owner have the power under its respective organizational documents to construct, rehabilitate or otherwise acquire and operate the Project, to submit an application to the ADOH for tax credits, to comply with the terms of the LURA and to perform such other actions as are necessary to comply with the Allocation Plan and Section 42 of the Code.
2. Type of Project.
 - a. New Construction Project. The Project will be constructed by the Applicant and will constitute new buildings whose original use will commence with the Applicant; or
 - b. Acquisition/Rehabilitation Project.
 - (1) Based on representations of the Applicant, the Project to be purchased by the Applicant or Owner will be constructed by the Applicant or Owner and contains existing buildings that the Applicant has or will substantially rehabilitate (as that term is defined in the Code) and, as required by Section 42(d)(2)(b);
 - (2) The Building was not previously placed in service by the Applicant or the Owner or any person who was a related person, with respect to the Applicant or Owner at the time it was previously placed in service; and;
 - (3) Except as provided in Section 42(f)(5), a credit is allowable under Section 42(a) by reason of Section 42(e) with respect to the building.
3. ___ percent (_____) or more of the residential units in the project will be rent restricted within the meaning of Section 42(g)(2) of the Code and will

be occupied by individuals whose income is _____percent (_____%) or less of the area median gross income.

4. All residential units of the Project will be suitable for occupancy and will be used on a non-transient basis as that term is defined by Section 42(i)(3) of the Code.

5. The gross rent (as defined in Section 42(g)(2)(B) of the Code) paid by individuals in residential units included in the calculation for qualification as a low-income housing project does not exceed thirty percent (30%) of the income limitations as set forth in the Code.

6. Except as provided in the Code, no other person related to the Applicant or Owner as a partner (as defined by Section 42(d)(2)(D)(iii) of the Code) will occupy a residential unit.

7. Any buildings in the Project will meet the above criteria within twelve (12) months after such building is placed in service and all buildings in the project previously placed in service will meet these criteria at the time any later building in the Project is placed in service.

8. The Applicant or the Owner will comply with these representations for at least fifteen (15) years to include any extended use period as specified in Section 42(h)(6) of the Code.

9. The Project will be eligible for an allocation of low-income housing tax credits under section 42 of the Code.

Sincerely,

Signature

Type or Print Name

**(THIS EXHIBIT IS TO BE COMPLETED AND EXECUTED ON FIRM
LETTERHEAD)**

Exhibit E-1
Sample CPA Opinion

Date

Rental Development Program Manager
Arizona Department of Housing
1700 W. Washington, Suite 210
Phoenix, AZ 85007

RE: **Project Name**

Dear Manager:

We have reviewed the detailed breakdown of costs for the project known as **Project Name** located in **City**, Arizona.

Based on the above documents, the qualified basis of the project eligible for an allocation of low-income housing credit pursuant to Section 42 of the Internal Revenue Code of 1986, as amended, is determined as follows:

Acquisition & Land Costs	\$
Professional Fees	\$
Construction Costs	\$
Construction Loan Costs	\$
Permanent Loan Financing Costs	\$
Syndication Costs	\$
Miscellaneous Soft Costs	\$
Developer's Overhead & Fees	\$
Project Reserves	\$
Other Costs	\$
Total Estimated Project Costs	\$

Less Land Cost	\$
Less Other Non-Eligible Costs	\$
Eligible Basis	\$
Applicable Fraction (Lesser of low income units or floor space)	\$
Qualified Basis	\$
Allowance for DDA or QCT	\$
Adjusted Basis	\$
Applicable Percent	\$
Calculated Annual Tax Credit	\$

The Reserved Credit Allocation is allocated to the buildings on the basis of _____% qualifying for the low-income housing credit. As reflected above, the qualified basis of the project would be eligible for a tax credit of _____% (adjusted for interest rate as determined monthly by the Internal Revenue Service) if the project meets the requirements of Internal Revenue Code Section 42.

Specifically, Section 42(g)(1) defines the term “qualified low income housing project” as any project for residential rental property if the project meets the requirements of subparagraph (A) or (B) whichever is elected by the taxpayer:

(A) 20–50 Test: The project meets the requirements of the subparagraph if 20% or more of the residential units in such project are both rent-restricted and occupied by individuals whose income is 50% or less of area median gross income.

(B) 40-60 Test: The project meets the requirements of this subparagraph if 40% or more of the residential units in such project are both rent-restricted and occupied by individuals whose income is 60% or less of area median gross income.

Any election under Section 42(g)(1), once made, shall be irrevocable. For purposes of Section 42(g)(1), any property shall not be treated as failing to be residential rental property merely because part of the building in which such property is located is used for purposes other than residential rental purposes.

To avoid recapture of the tax credit, the project must remain a qualified low-income housing project throughout the compliance period. If at the close of any taxable year in the compliance period, the amount of qualified basis of the building with respect to the taxpayer is less than the amount of such basis as of the close of the preceding year, the taxpayer will be subject to the recapture provisions.

The estimated basis is calculated in accordance with the provisions of IRC Section 42 and, based solely on the line item descriptions provided and the stated tax credit rate, the applicant is eligible for \$_____ in annual low-income housing tax credits.

Finally, it is our opinion that the project is not subject to a reduction on basis due to the application of the “at risk” rules under Section 42(a)(1).

Sincerely,

**(THIS EXHIBIT IS TO BE COMPLETED AND EXECUTED ON FIRM
LETTERHEAD)**

Exhibit F
Example Ten Percent Letter

Independent Auditor's Report

Date:

To: Arizona Department of Housing
Rental Development Program Manager
1700 W. Washington, Suite 210
Phoenix, AZ 85007

and

(the "Owner")
Street
City, State Zip Code

Re: Project Name

We have audited the accompanying Certification of Costs Incurred (Exhibit F-1) of the Owner for _____ (the "Project") as of **(Date)**. Exhibit F-1 is the responsibility of the Owner and the Owner's management. Our responsibility is to express an opinion on Exhibit F based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether Exhibit F-1 is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in Exhibit F-1. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of Exhibit F-1. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Exhibit F-1 was prepared in conformity with the accounting practices prescribed by the Internal Revenue Service (IRS) under the accrual method of accounting and by the Arizona Department of Housing (the "ADOH"), which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, Exhibit F-1 referred to above presents fairly, in all material respects, costs incurred for the Project as of **(Date)** on the basis of accounting described above.

In addition to auditing Exhibit F-1 we have, at your request, performed certain agreed-upon procedures, as enumerated below, with respect to the Project. These procedures, which were agreed to by the Owner and the ADOH, were performed to assist you in determining whether the Project has met the 10% test in accordance with Internal Revenue Code Section 42(h)(1)(E) and Treasury Regulation Section 1.42-6. These agreed-upon procedures were performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the procedures below either for the purpose for which this report has been requested or for any other purpose.

We performed the following procedures:

- We calculated, based on estimates of total development costs provided by the Owner, the Project's total reasonably expected basis, as defined in Treasury Regulation 1.42-6, to be **(Amount)** as of **(Date)**.
- We calculated the reasonably expected basis incurred by the Owner as of **(Date)**, to be **(Amount)**.
- We calculated the percentage of the development fee incurred by the Owner as of **(Date)**, to be **(Percent)** of the total development fee.
- We compared the reasonably expected basis incurred as of **(Date)**, to the total reasonably expected basis of the Project, and calculated that **(Percent)** had been incurred as of **(Date)**.
- We determined that the Owner uses the accrual method of accounting, and has not included any construction costs in carryover Allocation basis that have not been properly accrued.
- Based on the amount of total reasonably expected basis listed above, for the Owner to meet the 10% test in accordance with Internal Revenue Code Section 42(h)(1)(E) and Treasury Regulation Section 1.42-6, we calculated that the Project needed to incur at least **(Amount)** of costs prior to **(Date)**. As of **(Date)**, costs of at least **(Amount)** had been incurred, which is approximately **(Percent)** of the total reasonably expected basis of the Project.

We were not engaged to, and did not, perform an audit of the Owner's financial statements or of the Project's total reasonably expected basis. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management of the Owner and for filing with the ADOH and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

City, State
(Date)

Exhibit F-1
Project Cost Form

COST ITEMS	ESTIMATED /ACTUAL PROJECT COST	REASONABLY EXPECTED BASIS	Amount paid or accrued as of _____
ACQUISITION COSTS			
Land			
Building(s)			
Closing Cost			
Legal Fees			
CONSTRUCTION			
Off-Site Improvements			
Site Work			
Landscaping & Fencing			
Demolition			
Direct Construction Costs			
Personal Property			
Other:			
FEES AND PERMITS			
Governmental Fees			
General Requirements			
Builder's Overhead			
Builder's Profit			
Construction Contingency			
PROFESSIONAL FEES			
Architect fee-design			
Architect fee-supervision			
Engineering fee			
Soils Report, Environmental			
Legal Fees			
Other:			
CONSTRUCTION (INTERIM) LOAN COST			
Construction Loan fees			
Construction Interest			
Insurance			
Loan Credit Enhancement			
Taxes-construction period only			
Credit Report			
Title and Recording			
Other (explain):			

COST ITEMS	ESTIMATED /ACTUAL PROJECT COST	REASONABLY EXPECTED BASIS	Amount paid or accrued as of _____
PERMANENT LOAN COSTS			
Loan Origination Fee			
Loan Credit Enhancement			
Cost of Issue			
Underwriting Discount			
Bond Premium			
Legal Fees			
Title and Recording			
Other (explain):			
SYNDICATION COSTS			
Organizational (Partnership)			
Legal & Accounting Fees			
Bridge Loan fees and expenses			
Other (explain):			
MISCELLANEOUS SOFT COSTS			
Appraisal			
Market Study			
Tax Credit Fees			
Consultants or processing agents			
Marketing			
Other (explain):			
DEVELOPER OVERHEAD & FEES			
Developer overhead			
Developer fee			
Consultant fee			
SUBTOTAL DEVELOPER FEES			
PROJECT RESERVES			
Stabilization (Rent-up) Reserves			
Operating Reserves			
Other (explain):			
TOTAL DEVELOPMENT COST			
PERCENT OF REASONABLY EXPECTED BASIS EXPENSED/ACCRUED			

Exhibit G

Final Cost Certification Letter Independent Auditor's Report

Date:

To: Arizona Department of Housing
Rental Development Program Manager
1700 W. Washington, Suite 210
Phoenix, AZ 85007

and

(the "Owner")
Street
City, State Zip Code

Re: Project Name

We have audited the costs included in the accompanying Arizona Department of Housing Final Cost Certification (the "Final Cost Certification") of **Name** (the "Owner") for **Name** (the "Project") as of **(Date)**. The Final Cost Certification is the responsibility of the Owner and the Owner's management. Our responsibility is to express an opinion on the Final Cost Certification based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Final Cost Certification is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Final Cost Certification. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Final Cost Certification presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Final Cost Certification was prepared in conformity with the accounting practices prescribed by the Internal Revenue Service under the accrual method of accounting and in conformity with the format and qualified Allocation plan rules set by the Arizona Department of Housing (the "ADOH"), which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the Final Cost Certification presents fairly, in all material respects, the actual costs of **(Amount)** and eligible basis of **(Amount)** of the Owner for the Project as of **(Date)**, on the basis of accounting described above.

This report is intended solely for the information and use of the owner and the management of the Owner and for filing with the Arizona Department of Housing and should not be used for any other purpose. We have no financial interest in the Project other than in the practice of our profession.

City, State
(Date)

Exhibit H – Imputed Income/Allowable Rents

Should be available late January, 2005

Exhibit I Application Format

Form C, "Low Income Housing Tax Credit Application," and associated forms are available on the ADOH's web site: www.housingaz.com. Contact Arizona Department of Housing at (602) 771-1000.

Applicants are hereby directed not to revise, change or modify these forms in any way. Any such alteration may disqualify the application.

Application material must be in 8-1/2 x 11 format, side bound, indexed and tabbed to correspond with the enumeration prescribed below. Exceptions: 1) all drawings/plans may be included unbound if they do not lend themselves to the 8-1/2 x 11 format. All such plans should be in the smallest practical (readable) format. Maximum acceptable drawing size is C-size; 2) items of significant volume (such as market demand studies) may be submitted as separate **bound** items.

The following items must be tabbed as follows to be located or scored:

TAB	DESCRIPTION	INFORMATION PROVIDED
A.	Cover Letter	Describe the project in a cover letter addressed to the ADOH. Enclose any requests for a waiver of the ADOH's policies and underwriting criteria (one waiver request per page), including the applicant's (or a bank's) justifications for the request.
	Self-Score Sheet	Complete and sign self-score sheet provided. Form A
	Set Aside Election	Set-Aside Election Form A-1
B.	Index	
C.	Application Form	Complete Form C, "Low-Income Housing Tax Credit Application," Applicants Certification, Form 8821, plus any State Housing Fund abbreviated application.
D.	Legal Opinion	"Sample Legal Opinion." (Exhibit E)
E.	CPA Opinion	"Sample CPA Opinion." (Exhibit E-1)
F.	Legal Formation	Insert all information required by the Allocation Plan
G.	Non-Profit Information	Insert all information required by the Allocation Plan, and Form G
H.	Development Team	Insert Form H and resumes of all Development team members. Complete Form H-1 for all new construction and rehabilitation tax credit projects for Developer Experience points.
I.	Land	Insert documents evidencing land control or land ownership (option, purchase contract, agreement to lease, deed, lease, "Status or Condition of Title Report," title insurance policy).

TAB	DESCRIPTION	INFORMATION PROVIDED
J.	Project Zoning Certification	Complete and insert Form J, "Project Zoning Certification," or an equivalent document, as well as the other documentation of readiness required by the Allocation Plan. (Section 2.10. (F))
K.	Financial ability to Proceed	Insert Letters of Intent, commitment, or award letters for all sources of funds listed under either Construction or Permanent Financing on Form C, "Low-Income Housing Tax Credit Application."
L.	Market Demand Study	Insert the Market Demand Study that has been prepared in accordance with Exhibit A to the Allocation Plan.
M.	Special Needs Populations	Insert Form M, "Commitment to Set Aside Units," along with all supporting documentation required by that form. Insert Form M-1, "Commitment of Service Provider".
N.	Priority Market Need	Insert Form N, "Commitment to Lower-Income Set-Aside."
O.	Tenant Ownership	Ownership proposal documentation. See Section 2.10. (F) of the QAP.
P.	Historic Preservation	Documentation as required. See Section 2.10. of the QAP.
Q.	Monitoring Compliance	Insert a plan for ensuring compliance with all the requirements of I.R.C. Section 42. Insert copy of management's last continuing training course certificate.
R.	Marketing Plan	Insert a description of proposed techniques and vehicles for marketing the property to potential low-income residents.
S.	Pro Forma	Insert an analysis of the estimated operating expenses, utility expenses and allowances, and other costs and income of the project on a 15-year pro forma basis (Non-project based rental assistance should be excluded from this analysis). See the QAP.
T.	Project Location	<ol style="list-style-type: none"> 1. Insert map indicating the project location, include directions to the site. 2. Insert an additional 8 x 10 map indicating the following facilities located within 2 miles; <ul style="list-style-type: none"> • Existing LIHTC or other affordable housing developments • Retail Centers • Medical Complexes • Recreational Facilities • Educational Facilities • Large scale employment centers • Public Transportation, and • Other information required by the QAP.
U.	Community Revitalization Project	Insert Form U and documentation as required under Section 2.10. (F).
V.	Utility Allowance	Insert a copy of the current Utility Allowance Schedule (from Public Housing Authority, Utility Company, or other source), which is the basis for the utility allowances entered on Form C, "Low-Income Housing Tax Credit Application."
W.	Drawings/Plans	Insert Form W and all required documentation as per the QAP.
X.	Project Schedule	Insert Form X, "Project Schedule."
Y.	Capital Needs Assessment	For rehabilitation and acquisition/rehabilitation projects insert a Capital Needs Assessment in the format required by the Allocation Plan.
Z	Service Provider Questionnaire	Complete and insert Form Z.

Exhibit L

MARKET STUDY GUIDE

General Requirements for a Market Study:

Arizona Department of Housing (ADOH) requires an independent, comprehensive, current, and professional Market Study for each proposed development. The Market Study must be prepared no more than six months before the Application is submitted to ADOH. A Market Analyst, unaffiliated with the Applicant, Developer, Lender, and/or Syndicator and experienced in multi-family rental housing, must prepare the study. The Market Study must be prepared using the market study requirements in ADOH's Market Study Guide. Market studies that do not conform to the requirements will be submit to further review and possibly not accepted until a conforming study is submitted.

ADOH may reject an application if it determines, in its sole discretion, that (1) the Applicant's Market Study is not satisfactory in form, content, or organization, or (2) based on information submitted in the Applicant's Market Study or information obtained by ADOH from other sources, market demand and conditions do not justify the development as proposed. ADOH will consider all facts and circumstances in making this determination, including the possible disruption caused by unneeded units entering the market at low rents. As a protection against the saturation of low-income units and to ensure absorption of new units, ADOH will approve no more than one family, one elderly, and one special needs category project (one project for each special needs category) per Tax Credit round in a community with a population of 50,000 or less.

ADOH receives a large number of market studies as part of the application process for financing and requests for rental housing Tax Credits. By requiring specific information in all market studies, ADOH will be able to assess housing needs in competing communities through a comparison of similar characteristics. By requiring that all market studies be prepared in accordance with a specific outline, ADOH will be able to perform a more comprehensive and expeditious review. The objective of the Market Study is to demonstrate the existence of sufficient demand for the proposed development in the market area. ADOH also wants to ensure the proposed development will not cause undue economic harm on the existing rental stock in the market area.

In its review of supply and demand, the Market Study must focus on the type of low-income housing development being proposed (i.e., elderly, large family, populations with special housing needs) as well as the income and rent levels proposed for the project. The Market Study must demonstrate strong demand for the type of low-income housing project proposed, as evidenced by growth of income qualified renter households in the market area, relatively low vacancy rates, comparable rent levels, and strong absorption rates at comparable properties in the market area. The Market Analyst is required to solicit the opinion of those knowledgeable of the housing market in the community where the proposed development is located. These experts include, but not limited to appropriate government officials (housing, planning, or economic development), local experts (i.e. brokers, developers, chambers of commerce), and colleges or universities. The opinions of these experts are to be recorded in the Market Study. The

Applicant must provide these officials a copy of the Market Study as soon as it is available. For Arizona communities of 100,000 population or more, the appropriate officials include:

City of Phoenix	Donna Curran	(602) 262-6291
City of Tucson	Emily Nottingham	(520) 791-4171
City of Mesa	Kathleen Kelly	(480) 644-2168
City of Glendale	Gilbert Lopez	(623) 930-3671
City of Scottsdale	Molly Edwards	(480) 312-4304
City of Tempe	Timothy Klont	(480) 350-8948
City of Chandler	Kurt Knutson	(480) 782-3200
Town of Gilbert	Carl Harris-Morgan	(480) 503-6893
Town of Peoria		(623) 773-7140

In addition, the local government entity must submit a letter commenting on the conclusions of the Market Study and issue any disagreements it may have with the Market Study. ADOH issues a letter to the appropriate government entity requesting their response to the Market Study. The Applicant will be made aware of any such disagreement so that the Market Analyst can issue a response.

All assumptions and sources of data used within the Market Study must be clearly documented. All demographic tables are to include both absolute numbers and corresponding percentages (% growth or % of total),

Following its review of the Market Study, ADOH, in its sole discretion, may request additional market information from the Applicant, the Applicant's Market Analyst, or another Market Analyst. Additional comment from the local government before reserving Tax Credits may be required.

The following Market Study Outline establishes the minimum requirements of ADOH. Market Analysts are expected to include any additional information they consider relevant and necessary to the analysis.

Market Study Outline:

The Market Study must be prepared based on the following outline. The order and names of each section detailed in this outline are to be used.

Table of Contents

- I. Introduction
 - A. Objectives of the Market Study
 - B. Qualifications of the Analyst
 - C. Certification Letter
- II. Executive Summary
- III. Proposed Project Summary
 - A. Project Description
 - B. Proposed Unit and Project Amenities
- IV. Proposed Site Analysis
 - A. Site Description
 - B. Site Access and Visibility
 - C. Proximity to Community Services
 - D. Site Photographs
- V. Market Area Analysis
 - A. Market Area Description
 - B. Market Area Map
- VI. Demographic and Economic Analysis
 - A. Population and Households
 - B. Household Income
 - C. Employment
 - D. Housing
- VII. Supply Analysis
 - A. Rental Housing Overview
 - B. Comparable Properties
- VIII. Capture Rate Analysis
- IX. Conclusions

Addendums

I. Introduction

A. Objectives of the Market Study

This section provides a brief overview of the project including, but not limited to, the following items:

- Project Name
- Location (address/intersection and City/Town)
- Type of project (new construction or rehab)
- Market segment served (family, elderly, special needs)
- Income targeting (60%, 50%, 40%, 30% AMI; public housing; market rate)
- Number of units

Also, the entity that commissioned the Market Study must be identified including entity name, contact name, address, and phone number. This section should also detail any assumptions and limiting conditions that the Market Study is subject to.

B. Qualifications of the Analyst

This section of the study should include a one to two page summary of the analyst's qualifications and experience in conducting market studies for income-restricted rental housing properties.

C. Certification Letter

The Market Analyst must include the Certification Letter provided as ADDENDUM 1.

II. Executive Summary

The Executive Summary must outline the most pertinent findings of each section of the Market Study. The Executive Summary should not exceed five pages. It should provide brief summaries of the proposed development, site evaluation, market area, demographic and economic trends, rental housing market, comparable market rents, capture rate analysis, and conclusions. A table detailing the characteristics of the proposed development and conclusions of the market study must be provided. The following table includes the minimum information and format required. Other information may be added.

Quick Project Details			
Location		Description	
Project Name:		Project Type:	<i>New Construction or Rehab</i>
City/Town:		Total Units:	
County:		Low Income Units:	
Address/Intersection:		Market Rate Units:	
Census Tract:		Unit Types:	
		Income Set Asides:	
		Target Population:	<i>Family, elderly, or special needs</i>
Demand, Absorption, and Occupancy			
Target Vacancy Rate:			
Projected Absorption Rate:			
Projected Lease-Up Period:			
New Households Capture Rate (Project Total):			

III. Proposed Project Summary

A. Project Description

The Market Analyst must incorporate the Project Summary Table provided as ADDENDUM 2 to note the proposed unit mix, unit size, gross rents, utility allowances, and collected rents. In addition, the analyst must specify utility responsibility and the anticipated date of opening. A description of the number of proposed buildings, their appearance (e.g., 40% brick/60% stucco with tiled roof), number of stories, and construction type (i.e., walk-up, townhouse, high-rise with elevator) is to be provided as well.

For rehabilitation projects, current rents, current and historical vacancy rates, and waiting lists are to be noted. A current rent roll is required. Also, an analysis of the number of existing units occupied by residents who are expected to be income-eligible for the proposed development is required.

B. Proposed Unit and Project Amenities

The Market Analyst must incorporate the Amenities Table provided as ADDENDUM 3 to note the unit and project amenities being proposed. The number and type of parking spaces proposed is to be noted, as is the net (heated) square footage of the community building (if proposed). The proposed rent for any optional amenities is to be noted.

For rehabilitation projects, a detailed list of the proposed improvements is to be included as well. (This can be provided by the developer and included as an Addendum to the study.)

IV. Proposed Site Analysis

A. Site Description

The Market Analyst must personally visit the proposed site. The site location is to be described using the nearest roadways (streets and/or highways). The physical features of the proposed site are to be noted (i.e. flat, undeveloped, agricultural, rocky, etc). Other information to be documented includes the size of the proposed site (in acres) and the census tract the site is located. The census tract of the proposed site is available from the Census Bureau at the following link.

http://factfinder.census.gov/servlet/AGSGeoAddressServlet?_programYear=50&_treeId=420&_lang=en&_sse=on

The project location should be described in terms of characteristics of the neighborhood and sub-market with respect to schools, transportation, employment centers, shopping, community services, and public facilities, just to name a few. A discussion of the current land uses of property adjacent to the proposed development should be included. The condition of surrounding land uses should be noted. The positive and negative attributes of the proposed site and surrounding neighborhood should be discussed. Also, the impact of the site and neighborhood on project marketability should be examined.

Include a map showing the site and important neighborhood facilities and amenities. Be sure to include a distance scale on the map (i.e. 1" = 2 miles).

B. Site Access and Visibility

The roadway(s) providing access to the proposed development are to be described and the latest available traffic counts are to be noted. Traffic count surveys are generally readily available from a community or county. To the extent that a traffic count survey is either unavailable or does not cover the roadways adjacent to the proposed site, a statement to that effect must be made. The Market Analyst will note the proposed site's roadway frontage (in feet) and evaluate the proposed site in terms of its visibility from the adjacent roadways. If the site is located along a secondary roadway, its proximity to the nearest major roadway is to be noted. The analyst will discuss any difficulties with visibility and access including (but not limited to) highways, power lines, railroad tracks, or landfills. The impact that these difficulties and any other location consideration relevant to the market and marketability of the proposed site should be evaluated.

C. Proximity to Community Services

The Market Analyst must incorporate the Proximity to Community Services Table provided as ADDENDUM 4. Distance (in miles) is to be noted as travel distance (i.e., calculated along dedicated roadways), not as direct distance or "as the crow flies." However, direct distance is to be noted for the nearest site detractors

(i.e., excessive noise generators and health hazards, etc.) where appropriate. Include a map detailing the locations of the community services in relation to the proposed site. Be sure to include a distance scale on the map (i.e. 1" = 2 miles).

D. Site Photographs

Color photographs of the subject site from various vantage points are to be included. Also, color photographs of adjacent properties and streetscapes should be included as well. All photographs are to be described (e.g., view of the site, looking northeast from Main Street / view from the site, looking west toward the adjacent single family home).

V. Market Area Analysis

A. Market Area Description

The Market Area is the geographic area in which the subject development will compete with similar properties for residents. It is the area in which properties of the same use are affected by the same economic, demographic, and supply and demand factors. It is also the smallest geographic area from which the subject development will draw most of its residents.

The Market Area must be justified. The Analyst must provide a narrative describing the methodology and rationale used to determine the market area. The narrative is to include the names and telephone numbers of the local officials interviewed (as well as summaries of those interviews) who assisted in the determination of the market area. Local officials include (but are not limited to) area apartment managers, city administrators, postmaster, senior center operators, hospital administrators, and school administrators. If the Market Analyst chooses to define a secondary market area, a description and justification must be provided.

The square mileage of the market area is to be noted. Market areas are separated by natural (e.g., rivers and mountains) and man-made (e.g., political and socio-economic) boundaries. Market areas are not radial and ADOH prohibits use of the concentric circle approach. Market areas must follow Census-defined boundaries including census tracts, block groups or blocks (where appropriate). Census tract maps are available from the U.S. Census Bureau at the following link.

http://factfinder.census.gov/servlet/ReferenceMapFramesetServlet?_bm=y&-lang=en

B. Market Area Map

A map clearly illustrating the Market Area is required. This map must note the proposed site location. The map is to be scaled for distance.

VI. Demographic and Economic Analysis

A. Population and Households

Population and household trends within the market area are to be noted in table format. The table must include population and households' data from the 1990 Census, 2000 Census, current year, year of project opening, and five-year projection (5 years from the current year). Population and household growth must be noted in absolute and percentage terms. Percentage growth should be listed as compound annual rates. Nationally recognized demographic providers (Claritas, ESRI, AGS, for example) are suggested sources for estimates and projections. Other commercial or government sources of population and household projections will be considered. If the Market Analyst determines that the growth rates projected by Claritas, ESRI, or other sources are not realistic, the Market Analyst may adjust the projected growth rates only with proper justification included in the narrative analysis. In this case, the Market Analyst is required to show the projected growth rates from Claritas, ESRI, or other sources as well as the adjusted growth rates.

Data from the 1990 Census and 2000 Census are provided by the U.S. Census Bureau at the following link.

http://factfinder.census.gov/servlet/DatasetMainPageServlet?_program=DEC&_lang=en&_ts=113321071080

Additional demographic data based on the 2000 Census is required. The type of demographic data, table number from the 2000 Census, and year of the required data are detailed below. This data must be reported for the market area defined in the Market Study. This data must be reported in table format including percentage distributions.

- Population by Race – 2000 Census (SF1 – Table P4)
- Population by Age – 2000 Census, Current Year, 5-year projection (SF1 – Table P12)
- Households by Tenure (i.e. renters vs. owners) – 2000 Census (SF1 – Table H4)
- Households by Age of Householder – 2000 Census, Current Year, 5-year projection (SF1 – Table P21)
- Renter Households by Age of Householder – 2000 Census (SF1 – Table H16)
- Renter Households by Household Size – 2000 Census (SF1 – Table H15)

The 2000 Census data can be found using the following link.

http://factfinder.census.gov/servlet/DatasetMainPageServlet?_program=DEC&_lang=en&_ts=113323938939

Market studies addressing a proposed development serving persons with disabilities are to include the 2000 distribution of Noninstitutionalized Population with Disabilities by Type of Disability. This data is available from the Census 2000 Summary File 3 (SF 3), Table P41.

In addition to reporting the requested data in table format, the Market Analyst is expected to provide a narrative analysis of the data provided and its potential impact on demand for the proposed development.

B. Household Income

Distributions of Household Income within the Market Area are to be provided in table format for 2000, the current year, and 5-year projection. The 2000 median household income among all households, owner households, and renter households are to be noted.

Distributions of Income among Renter Households are to be provided in table format for 2000 and the anticipated year of project opening. (The 2000 data is available from the Census 2000 Summary File 3 (SF 3), Table HCT11.) **The Market Analyst will need to project the Distribution of Income among Renter Households to the anticipated year of project opening.**

Market studies addressing a proposed development serving an age-restricted population are to include Distributions of Income among Owner Households by Age, as well as Distributions of Income among Renter Households by Age. Age cohorts of 10 years are to be used, when applicable and where available. The distributions can be limited to those age cohorts applicable to the proposed development (i.e., age 55+ or age 62+).

For all tables, income cohorts of no more than \$5,000 are to be used, when applicable and where available. Households with income over \$50,000 can be condensed into a single cohort.

All tables are to include both the numbers and correlating percentages

C. Employment

The potential demand for the proposed development is a function of the local and regional economy. The Market Analysis is required to provide an analysis of current and forecasted economic conditions and how they relate to demand for additional new rental housing.

The economy of the market area and the region surrounding the market area should be addressed with a minimum of the following information.

- Employment by industry – 1995 and 2004
- Total employment growth – Annually from 1995 through 2004
- Unemployment rate – Annually from 1995 through 2004
- Major current employers and estimated employment
- Average annual wages by industry – Most current
- Anticipated expansions, closures, and any new employment planned
- Proposed transportation improvements

The Market Analyst should provide the above information for the market area if available. Otherwise, metro area or countywide figures are suggested. In the case of employment by industry, total employment and percent of total employment should be reported. For total employment growth, total employment and percentage growth should be provided.

Employment and wage data can be found from a number of sources including the Arizona Department of Economic Security and the U.S. Bureau of Labor Statistics. Use the following links for further information.

<http://www.workforce.az.gov/> or <http://www.bls.gov/>

D. Housing

In order to characterize the existing housing stock in the market area, a number of data tables from the 2000 Census are required. At a minimum, the following data should be reported in table format using both absolute numbers and percent of total. No current year estimates or projections are required. The 2000 Census table numbers are also noted.

- Units in Structure (SF3 – Table H30)
- Vacancy Status (SF3 – Table H8)
- Tenure by Year Structure Built (SF3 – Table H34)
- Tenure by Rooms (SF3 – Table H26)
- Tenure by Plumbing Facilities by Occupants per Room (SF3 – Table H22)
- Gross Rent (SF3 – Table H62)
- Gross Rent as a Percentage of Household Income (SF3 – Table H69)
- Value of Owner-Occupied Housing Units (SF3 – Table H74)

The Market Analyst will discuss the affordability of home ownership alternatives available to the target population within the Market Area, and its impact on the proposed rental housing development.

VII. Supply Analysis

A. Rental Housing Overview

The Market Analyst must conduct a large enough survey of the existing rental stock within the market area to provide an accurate overview of the entire rental housing market. In addition to market rate properties, this survey must include all Tax Credit (9%) and Bond (4%) developments.

The following information must be provided at a minimum. If certain information is not available, provide as much information as possible. In addition to tables, the Market Analyst must include a narrative summarizing the overall condition of the rental housing market with the market area.

Following is a breakdown of data and information required (to the extent it is available).

Historical and Current Rental Inventory

- Current rental inventory in the market area for market rate and Tax Credit/Bond units (separately) detailing number of units by unit type, average gross rents by unit type (adjusted for utilities), average unit sizes by unit type, and vacancy rates
- Historical & current vacancy rates and new units constructed for the entire rental market
- Historical & current vacancy rates and new units constructed for Tax Credit and Bond developments
- Historical & current vacancy rates for Government Subsidized developments (if applicable)
- Seasonality of market
- List of LIHTC and Bond developments including number of units, income set asides, current vacancy rates, and year built
- Provide a map showing the locations of the LIHTC and Bond developments in the market area

Current Rents & Concessions

- Current gross rents for comparable and competitive projects in the market area. This must include all Tax Credit and Bond projects as well as any market rate properties offering rents effectively equal to those proposed rents at the subject property.
- Discuss trend in rent increases during the most recent years
- Evaluate how and to what extent (if any) rents are overstated due to concessions or other factors
- Provide information on historical, current, and projected monthly rent concessions, if offered

Absorption and Waiting Lists

- Absorption experience of recently-completed market rate projects
- Absorption experience of recently-completed Tax Credit and Bond developments
- Waiting list of existing developments considered most comparable to the proposed development. This can include income-appropriate waiting lists from local housing authorities.

Properties Under Construction or Planned

- Identify all Tax Credit and Bond properties in the market area that are either under construction or planned. If there are no developments in the planning stages or under construction, a statement to that effect must be provided.
- Identify any market rate developments either under construction or planned that will have rents similar to those offered by the subject property
- Provide a map showing the locations of all LIHTC and Bond properties either under construction or planned
- For each project under construction or planned, provide information such as unit types offered, unit sizes, average rents, estimated completion date, and the extent of any lease-up activity (if available)

Lists of Tax Credit and Bond properties already completed and currently under development can be found at the following links.

[http://www.housingaz.com/UPLOAD/LIHTC completed prop.pdf](http://www.housingaz.com/UPLOAD/LIHTC%20completed%20prop.pdf)

[http://www.housingaz.com/UPLOAD/LIHTC Carryover prop.pdf](http://www.housingaz.com/UPLOAD/LIHTC%20Carryover%20prop.pdf)

B. Comparable Properties

The Market Analyst is required to identify those properties that are considered comparable to and will be direct competition with the proposed development. Comparable properties are those developments with similar financing, developments serving the same target population, developments offering similar amenity packages, and/or developments offering similar rents. These include Tax Credit and Bond properties as well as market rate complexes (if applicable).

Proposed rents and unit sizes at the subject property are to be compared to those offered at the comparable properties in the market area. The following information is required in table format.

- Compare subject property to Tax Credit and Bond properties including a breakdown by unit type, unit size, current concessions, and current rent.
- Compare subject property to comparable market rate properties including a breakdown by unit type, unit size, current concessions, and current rent

Following is a sample table that should be used for each unit type.

Comparable Property	# of Units	Unit Size	Rent per month	Rent per sf	Concessions per month	Net Rent per month	Net Rent per sf
1 Bedroom							
Sample Property #1	50	650	\$715	\$1.10	\$50	\$665	\$1.02
Sample Property #2	75	850	\$723	\$0.85	\$100	\$623	\$0.73
Totals / Averages	125	770	\$720	\$0.93	\$80	\$640	\$0.83
Subject Property	35	625	\$521	\$0.83	\$0	\$521	\$0.83
% difference from Comparables		-18.8%	-27.6%	-10.8%		-18.5%	0.4%

The following information should be provided in a one-page summary sheet for each Comparable Property (if available).

- Color photograph of a residential building representative of the entire development
- Name, address, telephone number of the development
- Contact person, date of contact, and mode of contact (i.e., in-person or by telephone)
- Year of opening and year of significant renovation (if applicable)
- Amenities (both unit- and project-related), including parking provisions
- Source of heat, water heating, and cooking (i.e., electric, natural gas, propane, etc.)
- Utility responsibility (i.e., tenant-paid or owner-paid)
- Number of units distributed by structure type (e.g., townhouse, garden-style, etc.) and unit type (i.e., number of bedrooms and baths within the unit)
- Net (heated) square footage of units
- Collected rents and estimated gross rents. (Gross rent is derived by adding the estimated cost of tenant-paid utilities to the collected rent. The applicable Utility Allowance Worksheet is to be the source of the utility cost estimates.)
- Vacancy rates by unit type
- Program participation (e.g., HUD Section 8, RD Section 515, Tax Credit, etc.), if applicable
- Tenant profile (e.g., family, elderly, persons with special needs, etc.)
- Waiting lists
- Turnover rate
- Absorption rate (if the property is less than 3 years of age)
- Distance from the subject property

Distance from the subject property (in miles) is to be noted as travel distance (i.e., calculated along dedicated roadways), not as direct distance or “as the crow flies.”

For comparable developments in the planning or construction stages, provide as much of the required information (noted on the preceding page) as is available, and include the development's estimated date of market entry.

VIII. Capture Rate Analysis

The Market Analyst is to note the appropriate income range for each percent of Area Median Income (AMI) election at the proposed development.

For income-restricted Family Units, the minimum income is to be based on the assumption that the household will apply up to 40% of their gross income towards their total housing expense. The maximum income is to be based on the assumption that population per household will equal the number of bedrooms plus one (1). For example, the population of an efficiency unit is assumed to be 1 (i.e., zero bedrooms plus 1 equals 1), and the population of a three-bedroom unit is assumed to be 4 (i.e., 3 bedrooms plus 1 equals 4).

For income-restricted Senior Units, the minimum income is to be based on the assumption that the household will apply up to 45% of their gross income towards their total housing expense. The maximum income is to be based on the assumption that just one person will occupy all senior units, regardless of the number of bedrooms within the unit. The Senior Capture Rate Analysis must focus on the targeted age group (i.e., age 55+, or in the case of federally subsidized units - age 62+). Up to 10% of the age- and income-appropriate homeowners within the Market Area may be included in the Senior Capture Rate analysis. (Homeowners are not to be included in the Family Capture Rate Analysis.)

For market-rate units, the Market Analyst must make some reasonable determination of a maximum income level beyond which a household will not likely be a participant in the rental market. The Market Analyst must clearly note the assumptions used in determining the appropriate income range for the proposed market rate units. For units with project-based rental assistance, the appropriate income range can extend down to \$0.

In summarizing the Capture Rate Analysis, the Market Analyst is required to use the appropriate table provided in ADDENDUM 5. There is one table for family projects and one table for senior projects. Each of these tables includes two sections: Gross Households Capture Rate and New Households Capture Rate. Completion of these two sections is required.

In addition to the components of demand identified on the capture rate tables, the Market Analyst is required to account for two other factors. The number of comparable low income and market rate units (if applicable) in the market area that must be absorbed to reduce the vacancy rate to normalized conditions must be determined. The Market Analyst is required to assume that normalized vacancy is no more than 7%. The second factor that must be considered is comparable low income

and market rate units either under construction or planned in the market area. Also, for all Rehab projects, the estimated number of existing residents that will be income-eligible and will likely remain at the property must be subtracted from the analysis.

If the Market Analyst believes there are other sources of demand not included in the Capture Rate tables, they can be considered if the Market Analyst can justify the reason. Any additional sources of demand should be calculated separately and be easily added or subtracted from the Capture Rate tables.

The Market Analyst should provide a narrative of what the capture rate means for the proposed development and market area. If the number of proposed units exceeds growth, the Market Analyst must provide additional documentation of demand that does not include cannibalization of existing affordable projects.

IX. Conclusions

The Market Analyst must summarize the proposed development's strengths and weaknesses in terms of the market area's rental housing market and target population. The Market Analyst must state his/her professional opinion regarding the proposed development's feasibility from a market perspective and what effect the proposed development would have on the existing market. Also, the Market Analyst should indicate any other information believed to be important to overall rental demand in the market area including comments on the appropriateness of the unit mix and proposed rents.

The Market Analyst must project an absorption rate (units per month), lease-up period (in months), and stabilized vacancy rate for the proposed development. The Market Analyst is required to properly justify the projected absorption rate, lease-up period, and stabilized vacancy rate for the proposed development. If the anticipated absorption rate causes the proposed development's initial absorption period to extend beyond one year, "replacement absorption" (i.e., the need to re-rent vacated units due to tenant turnover) needs to be factored into the Market Analyst's projection. (The subject property's absorption period is considered to start as soon as its first unit is certified for occupancy.)

For rehab projects, the Market Analyst is to note the anticipated number of existing (program-eligible) residents who will elect to remain at the property through its renovation. With respect to the anticipated absorption period of renovation projects, the Market Analyst is to note the projection in two ways: 1) using the anticipated retention level and 2) using the assumption that no residents will elect to remain at the property.

If an unusually slow absorption rate and/or unusually low stabilized occupancy rate is anticipated, the Market Analyst is to indicate if it is due more so to market-related issues or product-related issues. The Market Analyst is encouraged to make

recommendations as to how the proposed development could be better structured to succeed within the market.

The Market Analyst is to evaluate the impact the proposed development will have on the occupancy rates of all income-restricted properties within the Market Area. This evaluation is to result in a table noting each income-restricted rental housing property, its current vacancy rate, and anticipated vacancy rate at the subject property's projected date of stabilized occupancy.

A list of all ADOH-Tax Credit funded rental housing properties (existing and under development), are available for review at the following sites:

[http://www.housingaz.com/UPLOAD/LIHTC completed prop.pdf](http://www.housingaz.com/UPLOAD/LIHTC%20completed%20prop.pdf)

[http://www.housingaz.com/UPLOAD/LIHTC Carryover prop.pdf](http://www.housingaz.com/UPLOAD/LIHTC%20Carryover%20prop.pdf)

ADDENDUM 1 – Certification Letter

Arizona Department of Housing Market Study Certification

The undersigned, a recognized firm of independent market analysts knowledgeable and experienced in the development of affordable rental properties, completed this Market Study of _____
(Development Name) in _____ (Community Name), Arizona for _____
(Developer/Applicant name).

To the best of our knowledge, all data contained in this report is correct to the extent that the local, State of Arizona, and federal recording agencies and demographic suppliers accurately record and publish this data. All projections were based on current professionally accepted methodology.

The market analyst has no financial interest in the proposed project or in any other matters involving the Developer or Applicant, or their principals. The relationship of the market analyst is limited to that of an independent market analyst. The fee assessed for the study was not contingent on the proposed development or application being approved by the Arizona Department of Housing.

The market analyst made a physical inspection of the market area, reviewed all relevant data, conducted personal interviews with local apartment managers, government officials, local real estate professionals, and service providers, and independently established the conclusions for this report.

By: _____
(Market Analyst Company)

By: _____
(Authorized Representative)

Title: _____

Date: _____

ADDENDUM 2 – Project Summary Table

UNIT TYPE	PERCENT OF AREA MEDIAN INCOME	NUMBER OF UNITS	NET SQUARE FEET	MAXIMUM ALLOWABLE GROSS RENT	RENTS AT OPENING*		
					GROSS	UTILITY ALLOWANCE	COLLECTED
EFFICIENCY/ 1 BATH	20%			\$	\$	\$	\$
	30%			\$	\$	\$	\$
	40%			\$	\$	\$	\$
	50%			\$	\$	\$	\$
	60%			\$	\$	\$	\$
	MKT			N/A	\$	\$	\$
ONE-BEDROOM/ 1 BATH	20%			\$	\$	\$	\$
	30%			\$	\$	\$	\$
	40%			\$	\$	\$	\$
	50%			\$	\$	\$	\$
	60%			\$	\$	\$	\$
	MKT			N/A	\$	\$	\$
TWO-BEDROOM/ 1 BATH	20%			\$	\$	\$	\$
	30%			\$	\$	\$	\$
	40%			\$	\$	\$	\$
	50%			\$	\$	\$	\$
	60%			\$	\$	\$	\$
	MKT			N/A	\$	\$	\$
TWO-BEDROOM/ 2 BATH	20%			\$	\$	\$	\$
	30%			\$	\$	\$	\$
	40%			\$	\$	\$	\$
	50%			\$	\$	\$	\$
	60%			\$	\$	\$	\$
	MKT			N/A	\$	\$	\$
THREE-BEDROOM/ 2 BATH	20%			\$	\$	\$	\$
	30%			\$	\$	\$	\$
	40%			\$	\$	\$	\$
	50%			\$	\$	\$	\$
	60%			\$	\$	\$	\$
	MKT			N/A	\$	\$	\$
FOUR-BEDROOM/ 2 BATH	20%			\$	\$	\$	\$
	30%			\$	\$	\$	\$
	40%			\$	\$	\$	\$
	50%			\$	\$	\$	\$
	60%			\$	\$	\$	\$
	MKT			N/A	\$	\$	\$
TOTAL							

* $\frac{\text{200}}{\text{200}}$

MKT: Market Rate

N/A: Not Applicable

ADDENDUM 3 – Proposed Amenities

UNIT AMENITIES		PROJECT AMENITIES	
	RANGE		ON-SITE MANAGEMENT
	REFRIGERATOR		COMMUNITY
	DISHWASHER		BUILDING/ROOM*
	DISPOSAL		LAUNDRY
	WASHER & DRYER		RESIDENT BUSINESS CENTER
	WASHER/DRYER HOOKUPS		DAY CARE CENTER
	CARPETING		EXERCISE ROOM
	WINDOW COVERINGS		SWIMMING POOL
	PATIO/BALCONY		PLAYGROUND
	BASEMENT		TENNIS COURT
	CARPORT		BASKETBALL COURT
	GARAGE		RAQUETBALL COURT
	INTERCOM SYSTEM		WALKING TRAIL
	SECURITY SYSTEM		LAKE
	OTHER:		OTHER:

* The community building/room has _____ square feet of heated space.

ADDENDUM 4 – Community Services and Site Area Detractions

COMMUNITY SERVICES	NAME	TRAVEL DISTANCE* FROM SITE (IN MILES)
MAJOR HIGHWAY(S)		
PUBLIC BUS STOP		
MAJOR EMPLOYERS / EMPLOYMENT CENTERS		
CONVENIENCE STORE		
GROCERY		
DISCOUNT DEPARTMENT STORE		
SHOPPING CENTER / MALL		
SCHOOLS: ELEMENTARY MIDDLE / JUNIOR HIGH HIGH		
HOSPITAL		
POLICE		
FIRE		
POST OFFICE		
BANK		
SENIOR CENTER		
RECREATIONAL FACILITIES		
OTHER		

*CALCULATED ALONG DEDICATED ROADWAYS

SITE AREA DETRACTIONS	DIRECT DISTANCE° FROM SITE (IN MILES)
ACTIVE RAILROADS	
FREEWAYS	
NATURAL WASH AREAS	
HIGH TENSION POWER LINES	
LANDFILL / GARBAGE DUMP	
OIL / CHEMICAL REFINERY	
POWER PLANT	
OTHER	

°DIRECT DISTANCE IS “AS THE CROW FLIES”

ADDENDUM 5 – Capture Rate Analysis

FAMILY CAPTURE RATE ANALYSIS						
	30% AMI	40% AMI	50% AMI	60% AMI	Market Rate	Total Project
Appropriate Income Range	\$__ to \$__	\$__ to \$__	\$__ to \$__	\$__ to \$__	\$__ to \$__	\$__ to \$__
Gross Households Capture Rate						
Number of Renter Households in Current Year (200_)						
Add : Number of renter households expected to be added to the market area by project opening (200_)						
Equals: Number of renter households at project opening						
Multiply: Percentage of renter households who are income eligible						
Equals: Number of income-eligible renter households at project opening						
Divide: Number of units being proposed at each income range						
Equals: Gross Households Capture Rate						
Net Households Capture Rate						
Number of renter households expected to be added to the market area between the current year and project opening						
Multiply: Percentage of renter households who are income eligible						
Equals: Number of income-eligible renter households expected to be added to the market area between the current year and project opening						
Subtract : Number of currently excess vacant units at comparable properties in the market area						
Subtract : Number of competitive units that are either under construction or planned in the market area						
Subtract: Number of existing residents that are income-eligible and will likely remain at the property (REHAB only)						
Equals : Net new renter households expected to be added to the market area between the current year and project opening						
Divide : Number of units being proposed						
Equals : New Households Capture Rate						

SENIOR CAPTURE RATE ANALYSIS						
	30% AMI	40% AMI	50% AMI	60% AMI	Market Rate	Total Project
Appropriate Income Range	\$___ to \$___	\$___ to \$___	\$___ to \$___	\$___ to \$___	\$___ to \$___	\$___ to \$___
Gross Households Capture Rate						
Number of Renter Households Age ___+ in Current Year (200__)						
Add: Number of renter households age ___+ expected to be added to the market by project opening (200__)						
Equals: Number of renter households age ___+ at project opening						
Multiply: Percentage of renter households age ___+ who are income-eligible						
Equals: Number of income-eligible renter households at project opening						
Add: 10% of the age- and income-eligible owner households						
Equals: Number of age- and income-eligible renter households at project opening						
Divide: Number of units being proposed at each income range						
Equals: Gross Households Capture Rate	%	%	%	%	%	%
New Households Capture Rate						
Number of renter households age ___+ expected to be added to the market between the current year and project opening						
Multiply: Percentage of renter households age ___+ who are income-eligible						
Equals: Number of income-eligible renter households age ___+ expected to be added to the market between the current year and project openingat project opening						
Add: 10% of the age- and income-eligible owner households						
Subtract: Number of currently excess vacant units at comparable properties in the market area						
Subtract: Number of competitive units that are either under construction or planned in the market area						
Subtract: Number of existing residents that are income-eligible and will likely remain at the property (REHAB only)						
Equals: Net new age- and income-eligible renter households expected to be added to the market between the current year and project opening						
Divide: Number of units being proposed						
Equals: New Households Capture Rate	%	%	%	%	%	%

ARCHITECT'S CERTIFICATE

The undersigned, being a duly licensed architect registered in the State of Arizona, has prepared for _____ (the "Project Owner") final plans, working drawings and detailed specifications (and addenda) dated [DATE] (collectively, the "Plans and Specifications") in connection with certain real property located in [CITY] Arizona (the "Project") for which the undersigned acknowledges that the Project Owner has applied to receive low-income housing tax credits under Section 42 of the Internal Revenue Code or to finance or refinance the costs to acquire, rehabilitate, or construct the Project by borrowing proceeds from the sale of publicly issued private activity bonds.

The undersigned hereby certifies to the Project Owner and the Arizona Department of Housing that the Plans and Specifications for the Project comply with and conform in all respects to the requirements of existing law, have been duly filed with and have been approved by all appropriate governmental and municipal authorities having jurisdiction over the Project and that the Project as shown on the Plans and Specifications is in compliance with all requirements and restrictions of all applicable zoning, environmental, building, fire, health and other governmental ordinances, rules and regulations and the requirements of the appropriate board of fire underwriters or other similar body acting in and for the locality in which the Project is located. All conditions to the issuance of building permits have been satisfied.

In the opinion of the undersigned, the Project has been constructed in a good and workmanlike manner substantially in accordance with the Plans and Specifications and is free and clear of any damage or structural defects that would in any material respect affect the value of the Project. In the further opinion of the undersigned, all of the preconditions have been met justifying the issuance of (i) the permanent certificate or certificates of occupancy for the Project (or the letter or certificate of compliance or completion stating that the construction complies with all requirements and restrictions of all governmental ordinances, rules and regulations) and (ii) such other necessary approvals, certificates, permits and licenses that may be required from such governmental authorities having jurisdiction over the Project pertaining to the construction of the Project.

The Project will be in compliance with all current zoning, environmental and other applicable laws, ordinances, rules and regulations, restrictions and requirements, including, without limitation, Title III of the Americans with Disabilities Act of 1990 and the Fair Housing Act, as it relates to the following:

- * Accessible Building Entrance on an Accessible Route: Covered multifamily dwellings must have at least one building entrance on an accessible route, unless it is impractical to do so because of terrain or unusual characteristics of the site. For all such dwellings with a building entrance on an accessible route the following six requirements apply.
- * Accessible and Usable Public and Common Use Areas: Public and common use areas must be readily accessible to and usable by people with disabilities.
- * Usable Doors: All doors designed to allow passage into and within all premises must be sufficiently wide to allow passage by persons in wheelchairs.
- * Accessible Route Into and Through the Covered Dwelling Units: There must be an accessible route into and through the dwelling units, providing access for people with disabilities throughout the unit.
- * Light Switches, Electrical Outlets, Thermostats and Other Environmental Controls in Accessible Locations: All premises within the dwelling units must contain light switches, electrical outlets, thermostats and other environmental controls in accessible locations.
- * Reinforced Walls for Grab Bars: All premises within dwelling units must contain reinforcements in bathroom walls to allow later installation of grab bars around toilet, tub, shower stall and shower seat, where such facilities are provided.
- * Usable Kitchens and Bathrooms: Dwelling units must contain usable kitchens and bathrooms such that an individual who uses a wheelchair can maneuver about the space.

The foregoing can be found in the Fair Housing Act Design Manual.

There are no building or other municipal violations filed or noted against the Project. All necessary gas, steam, telephone, electric, water and sewer services and other utilities required to adequately service the Project are now available to the Project. All street drainage, water distribution and sanitary sewer systems have been accepted for perpetual maintenance by the appropriate governmental authority or utility.

The Plans and Specifications do not require the installation or use of any asbestos-containing materials in connection with the construction or use of the Project.

Dated: [DATE]

ARCHITECT SIGNATURE: _____

NAME OF COMPANY: _____

FAIR HOUSING ACT ACCESSIBILITY CHECKLIST

The following is a checklist of design and construction requirements of the Fair Housing Act (the "Act"). This checklist represents many, but not all, of the requirements to the Act. This checklist is not intended to be exhaustive; rather, it is a helpful guide in determining if the major requirements of the Act have been met in designing and constructing a particular multifamily development.

PROJECT DESCRIPTION:

NAME: _____

LOCATION: _____

OTHER IDENTIFYING INFORMATION:

GENERAL REQUIREMENTS

- ☐ Development has buildings containing 4 or more units and was designed and constructed for first occupancy on or after March 13, 1991.
- ☐ If it is an elevator building, all units are "covered units."
- ☐ All units in buildings with elevators have features required by the Act.
- ☐ If it is a non-elevator building, all ground-floor units are covered units."
- ☐ All ground-floor units in buildings without elevators have features required by the Act.

NOTE: There is a narrow exception, which provides that a non-elevator building in a development need not meet all of the Act's requirements if it is impractical to have an accessible entrance to the non-elevator building because of hilly terrain or other unusual characteristics of the site.

ACCESSIBLE BUILDING ENTRANCE ON AN ACCESSIBLE ROUTE

- ☐ The accessible route is a continuous, unobstructed path (no stairs) through the development that connects all buildings containing covered units and all other amenities.
- ☐ The accessible route also connects to parking lots, public streets, public sidewalks and public transportation stops.
- ☐ All slopes are no steeper than 8.33%.
- ☐ All slopes between 5% and 8.33% have handrails.
- ☐ Covered units have at least one entrance on an accessible route.
- ☐ There are sufficient curb cuts for a person using a wheelchair to reach every building in the development.

COMMON AND PUBLIC USE AREAS

- ☐ At least two percent of all parking spaces are designated as handicapped parking.
- ☐ At least one parking space at each common and public use amenity is designated as handicapped parking.

- ☐ All handicapped parking spaces are properly marked.
- ☐ All handicapped parking spaces are at least 96" wide with a 60" wide access aisle which can be shared between two spaces.
- ☐ The accessible aisle connects to a curb ramp and the accessible route.
- ☐ The rental or sales office is readily accessible and usable by persons with disabilities.
- ☐ All mailboxes, swimming pools, tennis courts, clubhouses, rest rooms, showers, laundry facilities, trash facilities, drinking fountains, public telephones and other common and public use amenities offered by the development are readily accessible and usable by persons with disabilities.

USABLE DOORS

- ☐ All doors into and through covered units and common use facilities provide a clear opening of at least 32" nominal width.
- ☐ All doors leading into common use facilities have lever door handles that do not require grasping and twisting.
- ☐ Thresholds at doors to common use facilities are no greater than 1/2".
- ☐ All primary entrance doors to covered units have lever door handles that do not require grasping and twisting.
- ☐ Thresholds at primary entrance doors to covered units are no greater than 3/4" and beveled.

ACCESSIBLE ROUTE INTO AND THROUGH THE COVERED UNIT

- ☐ All routes through the covered units are no less than 36" wide.

ACCESSIBLE ENVIRONMENTAL CONTROLS

- ☐ All light switches, electrical outlets, thermostats and other environmental controls must be no less than 15" and no greater than 48" from the floor.

REINFORCED BATHROOM WALLS FOR GRAB BARS

- ☐ Reinforcements are built into the bathroom walls surrounding toilets, showers and bathtubs for the later installation of grab bars.

USABLE KITCHENS AND BATHROOMS

- ☐ At least 30" x 48" of clear floor space at each kitchen fixture and appliance.
- ☐ At least 40" between opposing cabinets and appliances.
- ☐ At least a 60" diameter turning circle in U-shaped kitchens unless the cook top or sink at end of U-shaped kitchen has removable cabinets beneath for knee space.
- ☐ In bathroom, at least 30" x 48" of clear floor space outside swing of bathroom door.
- ☐ Sufficient clear floor space in front of and around sink, toilet and bathtub for use by persons using wheelchairs.

The undersigned certifies that this Checklist has been completed by the Project Architect, that each of the items checked above is a design and construction requirement for the Project, and that the representations made in this Checklist are all true and correct to the best of my knowledge.

PROJECT ARCHITECT:

By _____

Printed Name

Title

Date

CONTRACTOR'S CERTIFICATE

The undersigned has served as the general contractor of the real property constructed at [Address] ("the Project") for [NAME OF OWNER] ("the Project Owner"). The undersigned acknowledges that the Project Owner has applied to receive low-income housing tax credits under Section 42 of the Internal Revenue Code or to finance or refinance the costs to acquire, rehabilitate, or construct the Project by borrowing proceeds from the sale of publicly issued private activity bonds.

The undersigned hereby certifies to the Project Owner and the Arizona Department of Housing (ADOH) that the Project was constructed in conformity with the Plans and Specifications dated _____, _____, 200___. [PLEASE NOTE THAT THIS DATE MUST MATCH THE PLANS AND SPECIFICATIONS DATE IN ARCHITECT'S CERTIFICATE].

Dated _____, 200__.

[CONTRACTOR NAME]

By _____

Name _____

Title _____

SERVICE PROVIDER QUESTIONNAIRE

(Submit under Tab Z)

This form is used by ADOH to determine the capacity of the applicant to meet the needs of residents as described in the Supportive Services Plan Outline. All applicants requesting consideration for resident services for Special Needs Housing, Support for Families in Transition, or Elderly Housing with Supportive Services must complete and include this form with the application.

ADOH Proposed Development: _____

Name of Owner of Agent: _____

Name of Service Provider: _____

Please attach answers to questions 1 through 11 in narrative form.

GENERAL INFORMATION

1. Summarize the service provider's mission and goals for the current fiscal year.
2. How many years has the service provider been active in delivering social services? If the service provider has no experience in delivering social services, describe the service provider's experience with and knowledge of the community that the service provider will serve. Identify other community agencies with whom the service provider will collaborate.
3. Describe other activities, aside from social services, in which the service provider is engaged.

EXPERIENCE IN SERVICE-ENRICHED HOUSING

4. Is the service provider currently involved in service-enriched housing programs? If yes, summarize experience in providing supportive services on-site for residents. Include name of housing development(s), property management company, and type of services provided. If no, please describe methods that will be used to increase your company's knowledge and understanding of providing service-enriched housing.
5. Describe collaborative efforts that demonstrate the service provider's capacity to deliver supportive services. Please identify organizations or companies involved in the collaboration and the nature of the organization's involvement.

PERSONNEL

6. How many people are employed by the service provider organization?
7. List the job titles of personnel who will work directly with residents of the proposed property. Attach an organizational chart.
8. Attach resume(s) of key personnel who will be responsible for providing services in this proposed development. If new staff must be hired in order to implement the work at this property, attach job description(s), including qualifications and identify resources to pay for cost of salaries.
9. Are key personnel currently involved in service-enriched housing programs at other properties? If yes, explain how many properties, how many total units, where they are located, and how staff's time will be divided between current responsibilities and responsibilities at the new development.

ARIZONA DEPARTMENT OF HOUSING (2005 APPLICATION)

STAFF PROFESSIONAL DEVELOPMENT

10. List the names of the professional training courses/workshops/seminars that staff who will be involved with this project have completed over the past 3 years. (List job title of staff, training attended, and date of training.)
11. Will participation in this service-enriched housing program require additional staff professional development? If yes, describe training and/or skills that will need to be developed or improved.

SERVICE PROVIDER'S OFFICE LOCATION(S)

Address of Principal Office: _____

Name/Title of Contact Person: _____

Telephone Number: _____

Fax Number: _____

E-mail: _____

Areas Served: {County(s), Neighborhood(s), etc.}

Other Offices close to proposed development: _____

Address: _____

Telephone: _____

Address: _____

Telephone: _____

- A. Is the service provider a subsidiary of another organization? _____ Yes _____ No

If yes, please provide name and address of the parent organization and describe relationship and tax status.

- B. Indicate the total number of clients served during the last fiscal year. Identify the amounts and sources of funding.

Client/Service Type	Number Served	Funding Level	Funding Source
Senior/Elderly Services	_____	_____	_____
Adult/Family Services	_____	_____	_____
Children/Youth Services	_____	_____	_____

ARIZONA DEPARTMENT OF HOUSING (2005 APPLICATION)

Additions _____

MH/MR _____

Education/Job Readiness _____

Other _____

- C. Has the service provider or any of its current personnel ever been involved in governmental investigation or judicial action or settlement concerning charges of a violation of local, state or federal laws or regulations concerning discrimination, fair housing violations or other civil rights laws, or concerning violations of federal, state or local regulations regarding use of funds?

_____ Yes _____ No

- D. Have any service grants or contracts held by the service provider over the past five years been terminated prior to their expiration dates?

_____ Yes _____ No

- E. Have any grants or contracts held by the service provider over the past five years not been renewed upon expiration?

_____ Yes _____ No

If you answered **yes** to question C, D, or E, attach an explanation or any supporting documentation necessary to explain the circumstances surrounding these situations.

I certify that the information contain herein and attached is accurate and complete.

NAME OF CEO/EXECUTIVE STAFF

SIGNATURE

TITLE

ORGANIZATION NAME

DATE

SUPPORTIVE SERVICES PLAN OUTLINE

The submitted plan must be specific to the proposed development. A completed Service Provider Questionnaire must be included at Tab Z.

1) Target Population

Define the target population and demonstrate that a significant number of residents are expected to need and benefit from the planned programs and services.

2) Goals/Expected outcomes

- a) Describe the service provider's philosophy and guiding principles as they relate to providing services to elderly residents or families in transition.
- b) Describe the specific goals of the supportive services program and how they relate to the anticipated needs of residents.

Example: Families in Transition

- i) To provide necessary supports, such as child-care, after-school care and transportation, to enable residents to maintain significant employment.

Example: Senior Housing with Services

- ii) To maintain health of residents through educational programs, health screenings, and fitness and nutrition programs.
- c) Describe expected outcomes related to each goal and how impact/success will be measured or identified.
- d) Describe how the program will identify and respond to the changing needs of residents over time. (Example: regularly scheduled resident meetings, needs assessments, surveys, focus groups, etc.)

3) Implementation of services, programs, and activities

- a) Describe the services and activities planned for residents of the proposed development. These may include (but are not limited to) child-care programs, after-school and summer children and youth programs, counseling programs, parenting skills classes, budget education, pre-vocational training, D&A Programs, family violence prevention, crime prevention, on-site service coordination or goal-oriented case management, health services, screenings and education, housekeeping, on-site meals, transportation, benefits counseling, wellness activities, and social and recreational programming.
 - Identify the party responsible for providing each service
 - How and where will the service be provided
 - Frequency of program or activity (daily, weekly, monthly, etc.)
 - Eligibility requirements for resident participation
- b) Describe service provider's methods to encourage resident participation.
- c) Describe the staffing plan and supervision responsibilities. Plans that include a service coordinator position as primary component should consider the ratio of one hour per week to every five residents as a guideline.

4) Budget and source of funds

Provide an annual budget that identifies the costs associated with implementation of the services identified above. Identify the source of funds. Funds must be available for the life of the program.

5) Evidence of coordination with community resources

If community service providers are expected to be involved in the delivery of services for the residents, include a letter of intent to provide services that describes their intended involvement.